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1999 Annual Report of the **Provincial Auditor of Ontario** to the Legislative Assembly

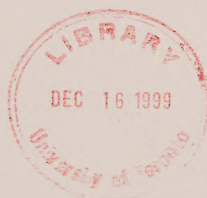


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To the Honourable Speaker of the Legislative Assembly

I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12 of the *Audit Act*.



Erik Peters, FCA
Provincial Auditor

Fall 1999

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CHAPTER ONE

Overview

IMPROVING INFORMATION FOR DECISION MAKING

1.00

As I have emphasized in previous Annual Reports, having good information for decision making is essential. Appropriate, reliable and timely information enables decision makers to accurately assess the economy, efficiency and effectiveness of government programs and activities. Such information provides a critical base for decision makers to decide whether to continue, discontinue or change government programs and activities, including the use of alternative service delivery or common purpose procurement. Good administration of public funds depends on good decisions based on good information.

One of the significant themes of my Annual Report this year, as in past years, is that ministries still require improvements in the quality of their information about the economy and efficiency of the programs and services they deliver. They often lacked adequate procedures for measuring and reporting program effectiveness, especially for those programs funded through transfer payments. These areas offer significant opportunities to improve information for decision making, which would lead to an improved administration of public funds.

Many services paid for by government are being provided by service delivery agents to which government does not have access for information about day-to-day operations. However, since about half of our tax dollars go to these agents in the form of transfer payments, it is vital that the government know the extent to which they are achieving intended results and whether or not taxpayers are receiving value for money spent. The key to this knowledge is ensuring the availability of appropriate, reliable and timely information.

A common finding of the transfer payments we audited this year, as in prior years, was that the government provided funding without linking that funding sufficiently to:

- assessed needs and service levels provided (see the sections on the Ministry of Community and Social Services' Child Care Activity and Community Accommodation Program);
- the demand for services rather than historical expenditure patterns (see the section on Ministry of Health and Long-Term Care's Transfer Payments to Public Hospitals); and
- provincial objectives (see the section on the Ministry of Training, Colleges and Universities' University Funding).

The fundamental requirements for sound information for decision making must also be met for decisions to outsource service delivery. In our audits, we focus on three phases of outsourcing: selecting the service to be outsourced; implementing the outsourcing/contracting;

and monitoring contractor performance. In this year's audits we found inadequacies in all three phases. Examples of our findings are described below.

- In outsourcing highway maintenance, the Ministry of Transportation selected a pilot district and estimated that savings from that pilot contract would amount to \$900,000. However, the Ministry could not provide us with any information to support its savings calculations. Therefore, the Ministry could not demonstrate whether the estimated savings were achievable or achieved. Nevertheless, the Ministry proceeded to grant four contracts covering almost 20% of the provincial highways for \$93.1 million without properly evaluating the results of the pilot project. Furthermore, in trying to determine if those four contracts would result in the estimated 5% of savings that the Ministry had reported to Management Board of Cabinet as achievable from the outsourcing, the Ministry either double-counted or overestimated its own costs of equipment maintenance, service crews and other expenditures. We found that, for these four contracts, the 5% target was not achieved.
- In implementing a computer consulting services contract, the Family Responsibility Office of the Ministry of the Attorney General spent \$2.3 million, including \$1.1 million on change orders subsequent to awarding the contract, without complying with significant aspects of the applicable Management Board of Cabinet directive, which is designed to ensure that value for money is obtained. The Ministry lacked the required approvals and could not explain why the large number and amounts of change orders were necessary despite having previously paid a consultant \$214,000 to define the project. We found the Ministry could not demonstrate that the project was managed with due regard for economy.

Furthermore, this \$2.3 million project did not address the computer system deficiencies we reported on in 1994, which we found still existed during this year's audit and which, according to the Ministry, will not be addressed at least until the year 2000. The Ministry had agreed with us that these deficiencies must be corrected to make the computer system meet the Family Responsibility Office's operational needs.

- As to monitoring, the Ministry of Transportation's monitoring efforts were insufficient to provide assurance that contractors are maintaining highways that are safe for public use. Maintenance coordinators in the districts we visited advised us that patrol areas were too large and inadequately staffed. As well, some coordinators assumed that contractors carried out their work as required because some of the contractor's staff were former ministry employees.

ACCOUNTING AND FINANCIAL INFORMATION

I am pleased to state that my auditor's report on the financial statements of the province for the year ended March 31, 1999 is clear of any qualifications or reservations.

Both the financial statements and the budget of the province are prepared in accordance with the accounting principles recommended by the Public Sector Accounting Board (PSAB) of

the Canadian Institute of Chartered Accountants and, where applicable, the *CICA Handbook* for private and public sector corporations in Canada. Using the same basis of accounting for both sets of accounts allows the Legislative Assembly to more easily compare actual with planned financial performance and results.

Despite this progress, further improvements are still needed. Although summary reconciliations are provided on a PSAB basis, the estimates continue to be prepared on a modified cash basis of accounting. Legislative spending authority and appropriation controls are not yet converted to the PSAB basis of accounting. I understand that the government is working toward adopting PSAB standards for spending authority.

For the third consecutive year, the government issued an annual report which helps legislators and the public better understand and evaluate the province's financial position and activities.

Below are my observations relating to some of the significant changes in expenditures this year as compared to previous years due to the government's Local Services Realignment (LSR) initiative and to the issue of the former Ontario Hydro's debt as it relates to its provincially owned successor companies. Both of these issues are more fully discussed in Chapter Five.

LOCAL SERVICES REALIGNMENT

Under LSR, responsibilities for a number of government programs were transferred in whole or in part to municipalities effective January 1, 1998, while at the same time the government assumed a greater share of the responsibility for education funding.

The LSR initiative has had a significant impact on the comparability of government expenditures with the previous year. For example, the impact on the expenditures of the ministries of Education and Training and Finance were increases of \$2,954 million and \$678 million respectively, and decreases for the ministries of Transportation and Municipal Affairs of \$1,285 million and \$666 million respectively. These and other impacts of LSR are discussed further in Chapter Five.

As a transition measure and to ensure continuity of service, the province continues to deliver many LSR programs on behalf of municipalities, pending full program transfer. During this transition period, municipalities reimburse the province for expenditures made on their behalf. In 1998/99 the province recorded reimbursements of \$2.1 billion from municipalities.

ONTARIO HYDRO

SUCCESSOR COMPANIES

Under the *Energy Competition Act*, Ontario Hydro was succeeded effective April 1, 1999 by five entities. The three largest of these are Ontario Power Generation Inc. (OPG), Ontario Hydro Services Company Inc. (OHSC) and the Ontario Electricity Financial Corporation (OEFC). The OEFC's preliminary opening balance sheet shows debt of \$38.1 billion, \$21 billion of which is the latest estimate of "stranded" debt.

The government has a long-term plan in place to retire this "stranded" portion of debt from dedicated revenues, such as payments from OPG and OHSC in lieu of property taxes, corporate income taxes, capital taxes and, if necessary, a Competition Transition Charge that

most likely would be levied on all ratepayers as part of their electricity bills. The effect of this plan is reflected in the preliminary opening balance sheet of the OEFC as a \$21 billion deferred charge to be recovered from future dedicated revenue streams. We have accepted this approach, contingent on being provided annually with independent assurance of the value of the dedicated revenue streams. If this assurance is not maintained, the deferred amount, or a portion thereof, would at that time worsen the provincial government's operating results.

RESTATEMENT OF CERTAIN FINANCIAL STATEMENTS

In our *1998 Annual Report*, we stated that, while Ontario Hydro acknowledged that the charging of \$6.4 billion of future expenses to be incurred in the years 1998–2001 to the year 1997 was not in accordance with generally accepted accounting principles for business enterprises, Ontario Hydro and its external auditors had concluded that this accounting treatment was acceptable for enterprises operating in a rate-regulated environment. We expressed our concern that this inclusion of future expenses in 1997 would, in future years, allow Ontario Hydro to significantly inflate its net income.

We understand that Ontario Hydro Services Company Inc., one of the successor companies to Ontario Hydro, has determined with its external auditors that it would be appropriate to restate certain of its financial statements along the lines that we had suggested for Ontario Hydro, that is, expenses are included in operating results of the year in which those expenses are incurred. We believe it would be appropriate for all of Ontario Hydro's successor companies that need to access public capital markets to take action similar to that taken by Ontario Hydro Services Company Inc.

In our view, the ability of Ontario Hydro's successor companies to raise funds through public issues is essential to containing the risk to the Government of Ontario under guarantees provided on existing Ontario Hydro debt amounting to \$26.2 billion as at March 31, 1999 and to deal with the recovery of "stranded" debt now recorded in the books of the Ontario Electricity Financial Corporation.

ACCOUNTABILITY

Chapter Two addresses specific issues of governance and accountability in government. This year there are four issues that I believe warrant discussion to improve accountability to the Legislature for the prudent use of public funds: concerns regarding public accountability for the Ontario Innovation Trust; the need for guidelines for government advertising; the governance and accountability of Ontario's scheduled agencies; and legislative proposals for increased public accountability.

VALUE FOR MONEY AUDIT RECOMMENDATIONS

THE AUDITING AND REPORTING PROCESS

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually to the Speaker of the Legislative Assembly.

Because of the size and complexity of the province's operations and administration, it is impossible to audit each program every year. Instead, the Office selects the audits it conducts in a cycle, so that all major programs are considered for coverage every five years. The audits covered by this *Annual Report* were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislative Assembly, public sensitivity and safety, and past audit reports.

We plan, perform and report our value for money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. The application of these standards is described more fully in Chapter Six of this Report.

Before beginning an audit, staff meet with auditee representatives to discuss the focus of the audit in general terms. During the audit, staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally and discussed with the auditee. A management response to our recommendations is incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and to finalize the responses. Those responses are provided with the report sections included in this *Annual Report*.

Immediately prior to the tabling of the Annual Report, separate and simultaneous lockups are arranged for members of the Legislative Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer questions from media representatives.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's Annual Report for review and calls upon representatives of the audited ministries and agencies to attend as witnesses.

Since 1993 it has been our practice to make specific recommendations in our value for money audits and reviews for corrective action by ministries and agencies and, two years after the publication of the recommendations in our Annual Report, to follow up on the status of actions taken. Chapter Four of this Report contains our comments on the current status of actions taken on the recommendations made in our *1997 Annual Report*.

VALUE FOR MONEY REPORT SUMMARIES

The following are summaries of the 14 reports on value for money audits and reviews contained in Chapter Three of this *Annual Report*. The auditees' responses in Chapter Three

indicate that action to implement many of our recommendations has been planned or has already been taken.

3.01 Ministry of the Attorney General Family Responsibility Office

The Family Responsibility Office (the Office), formerly the Family Support Plan, is responsible for enforcing support orders. A support order is an order issued by the court or an agreement between two parties for the payment of money towards the support or maintenance of a child and/or spouse. The Office's responsibility includes collecting and disbursing support payments.

For the 1998/99 fiscal year, the Family Responsibility Office had 340 staff and incurred expenditures of approximately \$28.2 million. Over \$500 million was collected and disbursed during the year compared to \$300 million in the 1993/94 fiscal year when we last audited the program. As of March 31, 1999, the Office had over 170,000 registered cases (126,000 at March 31, 1994). At that time, approximately 128,000 (75%) of the active cases registered with the Office were in arrears (96,000 cases at March 31, 1994). The arrears totalled \$1.2 billion (\$700 million at March 31, 1994).

We concluded that when payors went into arrears, the Office did not have a satisfactory system for initiating contact and taking the appropriate enforcement action. Where enforcement action was taken, we found gaps of more than six months between actions and, when unsuccessful, frequent failure on the part of the Office to pursue more aggressive action.

The Office's policy of issue management, under which the responsibility of enforcement officers was limited to the issues on which they worked, resulted in inefficiencies in case management. We noted many examples where more than three enforcement officers had worked on the same case; in one instance, eleven different officers were involved in one case over a span of two years.

The Office had spent over \$2.3 million on a computer services consulting contract relating to the installation of a front-end interface to the existing computer system. However, these technology enhancements did not address our 1994 audit findings relating to the computer system performance problems. According to the enforcement officers surveyed during this audit, the computer system was slow and often became unavailable.

In addition, with respect to the acquisition of the computer consulting services contract, we found that the Office had not complied with significant aspects of the Management Board of Cabinet Directive and could not demonstrate that the project was managed with due regard for economy.

Accordingly, we made recommendations for improving the Office's systems and procedures and the management of its resources.

3.02 Ministry of the Attorney General Office of the Public Guardian and Trustee

The primary responsibilities of the Office of the Public Guardian and Trustee (the Office) include acting as the guardian of property and/or personal care for mentally incapable persons

and administering the estates of persons who die in Ontario without a will and without known relatives. In addition, the duties of the Office were expanded in 1997 to include those of the Accountant of the Ontario Court. As such, the Office acts as custodian for assets paid into court, including monies paid to the credit of children until they reach the age of majority.

For the 1998/99 fiscal year, the Office had approximately 250 staff, operating expenditures of \$21 million and managed assets of approximately \$970 million.

Our audit concluded that although the Office had procedures in place to measure and report on the effectiveness of its services and programs, for the most part, the performance results reported did not meet the Office's targets.

The Office's systems and procedures were not adequate to ensure compliance with legislative requirements and due regard for economy and efficiency in the management of assets and financial affairs for its mentally incapable clients. We found a number of cases in which the Office had:

- acted on behalf of clients without the proper authority;
- failed to obtain income entitlements for clients;
- failed to identify and account for client assets in a timely manner; and
- failed to dispose of unused assets, maximize value to clients and avoid unnecessary expenses.

Management reported serious errors in 33% of guardianship files and a high number of negligence claims. We were especially concerned that procedures were not effective in ensuring corrective action, even when significant problems had been reported to the Office's senior management.

For the administration of estates for individuals who died without a will or next-of-kin, we noted a lack of adequate effort by the Office to locate potential heirs to the assets of estates that had files opened prior to 1996. If heirs cannot be located, the assets of an estate are payable to the province 10 years after an individual's death.

The Accountant of the Ontario Court indicated that it did not have a legal obligation to locate account holders and notify them of their assets. We found 1,300 accounts for minors with a value of over \$13 million belonging to clients who were at least 25 years old. The Office had not attempted to obtain current information, such as addresses, for many of these clients.

Accordingly, we made recommendations for improving the Office's systems and procedures and the management of its resources.

3.03 Ministry of Community and Social Services Child Care Activity

The Ministry's Child Care Activity develops policies for licensed child-care programs and subsidizes the cost of a portion of those programs to enhance the availability of affordable, high-quality care for children up to the age of 12. This care is, in turn, intended to allow parents to work or undertake training or education leading to employment.

During the 1998/99 fiscal year, the Ministry contracted with 186 municipalities and ministry-approved, non-profit corporations to provide for services on its behalf. In total, subsidized

child care was provided by 3,400 licensed child-care centres and 140 licensed private home-care agencies for approximately 133,000 and 8,500 children respectively. Ministry program expenditures totalled \$593 million for the year.

We concluded that the Ministry's administrative policies and procedures did not ensure that transfer payments were reasonable and adequately controlled because:

- the agency budget request and approval process was not timely, and there was no evidence that the amounts approved were based on assessed needs;
- significant variances in agencies' expenditure and service data were often not explained or acted upon by the Ministry;
- the Ministry did not regularly obtain and review the child-care subsidy eligibility criteria used by fee subsidy managers to ensure fairness and consistency in determining access to subsidized care; and
- the Ministry did not effectively determine whether wage subsidies were spent for the purposes intended and in the appropriate amounts.

A number of the audit observations and recommendations in this report are similar to audit observations and recommendations made in our reports on the Child Care Activity in 1989 and 1995. In 1995, the Ministry had agreed to take action to implement our recommendations to correct observed deficiencies, but did not follow through with some of its stated intentions. Therefore, we again made recommendations to overcome these deficiencies, and the Ministry responded to our recommendations with commitments to take corrective action.

3.04 Ministry of Community and Social Services Community Accommodation Program

The Community Accommodation program funds approximately 200 non-profit agencies that provide community-based, residential accommodation and supports to adults and children with developmental disabilities. The services provided range from minimal supervision for individuals placed in relatively independent living arrangements to intensive 24-hour-per-day, seven-day-a-week care when considered necessary.

For the 1998/99 fiscal year, the program's operating expenditures totalled approximately \$285 million, and one-time capital expenditures amounted to about \$15 million for that year.

We concluded that the Ministry's procedures did not ensure that transfer payments to agencies were reasonable and satisfactorily controlled. In that regard we found that:

- the Ministry did not have a transfer payment accountability framework in place that met the requirements of the Management Board of Cabinet Directive on Transfer Payment Accountability;
- the agency budget request and approval process was not timely, and there was no evidence that the amounts approved were based on assessed needs; and
- the Ministry was not effectively monitoring agency expenditures or service levels, or ensuring that appropriate corrective action was taken when necessary.

We also concluded that the Ministry's procedures to ensure compliance with legislative requirements and ministry policies and procedures were not adequate because the Ministry needed to:

- conduct regular inspections of family home agencies and group homes and ensure that any necessary corrective actions are taken; and
- promptly investigate and follow up all serious occurrence reports to ensure that the necessary corrective actions are taken.

We made recommendations to overcome these deficiencies and the Ministry responded to our recommendations with commitments to take corrective action.

3.05 Ministry of Consumer and Commercial Relations Liquor Control Board of Ontario

The Liquor Control Board of Ontario (LCBO), which reports to the Minister of Consumer and Commercial Relations, is a Crown agency incorporated under the *Liquor Control Act* to regulate the production, importation, distribution and sale of alcoholic beverages in Ontario.

The LCBO operates about 600 stores that are supplied by five warehouses. In partnership with the LCBO, established retailers operate approximately 100 agency stores in communities without populations large enough to support regular LCBO stores.

The LCBO employs over 4,500 permanent and casual staff and provides consumers with over 11,000 products. For the 1998/99 fiscal year, sales were approximately \$2.3 billion and net income was \$809 million, with the LCBO remitting \$776 million of its profits to the Consolidated Revenue Fund.

On the basis of our audit, we concluded that, in most respects, procedures were adequate to ensure that both the development of store facilities and store operations were carried out economically and efficiently. However, we made a number of recommendations for improvement, the most significant of which were to ensure that capital projects and single source contracts are better justified. The LCBO responded with commitments for corrective action.

3.06 Ministry of Economic Development and Trade Financial Controls Review

During the 1998/99 fiscal year, the Ministry spent \$161 million to administer economic development, trade and tourism programs. These expenditures consisted of \$40 million for staff salaries and benefits, \$76 million for other direct operating expenditures such as supplies, services and equipment, and \$45 million for transfer payments and other disbursements.

We reviewed the Ministry's financial controls, systems and procedures to determine whether they were adequate to ensure that expenditures were properly authorized, processed and recorded.

We concluded that, overall, financial controls were not sufficient to ensure that expenditures were properly authorized, processed and recorded. Controls over the \$15 million spent annually through the Ministry's accountable advance account were weak as the account was not reconciled on a timely basis, and in some cases the delay between making payments and

recording them on the financial system was six months or more. There was also a lack of segregation of duties in the Finance Branch, as 21 of the 28 employees could both enter transaction information into the financial system and approve payments. Additionally, in over 60% of the purchases we reviewed, we found control weaknesses such as a lack of required purchase orders, contracts and tendering. Controls over payroll were generally adequate.

Accordingly, we recommended that the Ministry correct these control problems, and the Ministry responded that corrective action would be taken to:

- perform reconciliations and record all transactions on a timely basis;
- ensure an adequate segregation of duties over the processing of financial transactions; and
- require that all payments be supported by evidence of compliance with mandatory competitive acquisition and approval policies.

3.07 Ministry of Finance Provincial Personal Income Tax Revenue and Related Credits and Reductions

For the 1998/99 fiscal year, the province received approximately \$17.2 billion in personal income taxes net of \$1 billion in tax credits, which represented 31% of total revenues. With the exception of Quebec, all Canadian provinces and territories have entered into a personal income tax collection agreement with the federal government. Under the terms of this agreement, the federal government processes and collects Ontario personal income taxes, processes claims for provincial personal income tax credits and reductions and remits the net proceeds to the province. As a result, the Ministry of Finance has no direct role in the collection or administration of personal income tax in Ontario.

We concluded that the Ministry did not have the necessary information to assess whether personal income taxes were correctly determined and whether personal income taxes were remitted to the province in as timely a manner as possible. In that regard, we found that:

- Revenue forecasts, and therefore in-year cash flows, were significantly less than the final determination of personal income tax revenues for the last three years. We estimated that the cost to the province of the resultant cash flow deficiencies for those years totalled \$189 million.
- The Ministry had very little input into, or information from, Revenue Canada about its audit procedures or its audit strategy, plans and coverage of Ontario-based taxpayer returns.

In addition, the Ministry estimated that the federal government's benefit from retaining interest and penalties revenue received in excess of bad debts written off from Ontario personal income tax payers could exceed \$50 million per year. However, the federal government has not provided the Ministry with the data required to verify the actual federal benefit.

We also noted that the Tax Collection Agreement imposes a number of significant limitations on the province with respect to the implementation of tax policy changes and administrative practices, the necessity and advisability of which are no longer clear.

We made a number of recommendations to the Ministry to address our concerns. The Ministry agreed with the merits of our recommendations and committed to pursue corrective actions.

3.08 Ministry of Health and Long-Term Care Cancer Care Ontario

Cancer Care Ontario's (CCO's) primary task is "to ensure that people in Ontario continue to receive high-quality cancer treatment." CCO also aims to reduce the number of people affected by cancer in the future by increasing prevention and screening efforts. CCO operates eight regional cancer centres, the Ontario Breast Screening Program and the Ontario Cancer Registry and advises the Ministry of Health and Long-Term Care on cancer issues.

During the 1998/99 fiscal year, Cancer Care Ontario had expenses totalling approximately \$209 million, of which \$173 million was provided by the Ministry of Health.

During our audit, we found that certain standards set to ensure that people in Ontario receive high-quality cancer care were not being met:

- Only 32% of CCO's patients requiring radiation therapy received it within the recommended four weeks from referral.
- The Ontario Breast Screening Program had insufficient mechanisms to monitor whether screening centres were meeting required performance standards and to ensure that high-risk women were identified for screening.

Although CCO generally managed its resources adequately, we noted that:

- The required Memorandum of Understanding between the Ministry and CCO setting out CCO's role and powers and the Ministry's expectations regarding CCO's administration was not in place.
- Cancer Care International had not been managed with due regard for economy.

We made a number of recommendations for improvement to CCO and the Ministry and received their commitments to take the necessary corrective action.

3.09 Ministry of Health and Long-Term Care Institutional Health Program—Transfer Payments to Public Hospitals

The Ministry's Institutional Health Program provides funding to public hospitals for the costs of operating their facilities. Currently, approximately 80% of the operating costs of public hospitals are funded through transfer payments from the Ministry. Each hospital's board of directors is responsible for the delivery of services by the hospital. The Ministry and hospital boards are both responsible for ensuring compliance with legislation and regulations. The *Public Hospitals Act* provides the Minister with the authority to impose terms and conditions for financial assistance provided to hospitals.

In the 1998/99 fiscal year, the Ministry provided \$7.1 billion to operate public hospitals and \$248 million for one-time costs incurred by hospitals in implementing the directives of the Health Services Restructuring Commission (HSRC).

In addition, the Ministry's Health Capital Program provides financial assistance to hospitals for the cost of approved capital construction. In the 1998/99 fiscal year, the Ministry provided approximately \$52 million to hospitals for capital construction and \$49 million for HSRC-directed capital projects. The key findings from our audit were that the Ministry did not have in place:

-
- an accountability framework clearly delineating the roles and responsibilities of both the Ministry and the hospitals;
 - a mechanism to periodically monitor and assess the impact of hospital restructuring;
 - systems to fund hospitals based on the demand for services;
 - consistent criteria for providing financial assistance to hospitals experiencing financial difficulties; and
 - indicators to measure and report on the performance of the public hospital system in delivering quality services.

Examples of audit findings that can be linked to the foregoing problems were:

- Based on hospital estimates, the capital costs for hospital restructuring would increase to approximately \$3.9 billion from the \$2.1 billion originally estimated by the HSRC.
- One hospital reported that, due to a shortage of operating funds, it was not fully utilizing new facilities that cost approximately \$110 million to construct. Four of its eight operating rooms were idle while local residents continued to travel to other centres for specialized care.

We made a number of recommendations for improvement and received commitments from the Ministry that corrective action would be taken.

3.10 Ministry of Health and Long-Term Care Ontario Substance Abuse Bureau

The Ontario Substance Abuse Bureau (the Bureau), which is part of the Ministry's Community and Health Promotion Branch, is responsible for funding addiction treatment services in Ontario. The Bureau's mandate is to reduce or eliminate substance abuse and other addictive behaviours.

The Bureau funds a range of treatment programs for people with substance abuse problems. During the 1998/99 fiscal year, the Bureau provided transfer payments totalling approximately \$94.5 million to 158 drug and alcohol addiction treatment agencies and approximately \$3.5 million for problem gambling initiatives.

In our audit, we found that the Ministry did not have adequate processes in place to ensure that bureau-funded addiction treatment agencies are providing quality treatment services in an economic and efficient manner.

- The Ministry had not monitored whether its initiatives were increasing capacity to treat substance abuse.
- The Ministry was not adequately ensuring that services were provided economically and efficiently.

The Ministry did not have an appropriate transfer payment accountability framework in place to hold agencies accountable for the services provided and the prudent management of the funds they receive.

The Ministry also did not have adequate procedures in place to measure and report on its effectiveness in preventing, reducing or eliminating substance abuse, problem gambling and other addictive behaviours. Our major concerns were that the Ministry:

-
- had not developed performance expectations or benchmarks for treatment agencies;
 - was not adequately monitoring the performance of treatment agencies regarding costs and outcomes;
 - was not sufficiently reviewing the accessibility of treatment services and was not monitoring waiting times to ensure that all clients were receiving treatment that met their needs on a timely basis; and
 - did not have program standards relating to quality of service.

We made a number of recommendations for improvement and received commitments from the Ministry that it would take corrective action.

1.00

3.11 Ministry of Municipal Affairs and Housing Non-Profit Housing Program—Capital Reserves

The Ministry of Municipal Affairs and Housing is responsible for administering the province's social housing programs, including the non-profit housing program. Responsibility for funding the costs of social housing programs was transferred to municipalities effective January 1, 1998. Subject to legislative approval and the finalization of a new agreement on social housing with the federal government, responsibility for the administration of the programs is to be transferred to municipal organizations.

Until then the Ministry continues to oversee the funding and operations of more than 1,100 cooperative, private and municipal non-profit housing providers and to bill municipalities for the subsidies and administrative costs. These providers receive subsidies totalling close to \$800 million annually to operate some 2,200 properties containing almost 100,000 rental units. The province also continues to guarantee over \$7 billion in mortgages on these properties.

Under operating agreements with each provider, the Ministry requires a portion of the annual operating subsidy to be contributed to a separate capital reserve fund established by the provider and stipulates how these reserve funds may be invested and spent. By the end of 1998, providers held capital reserves estimated at \$340 million.

Based on our audit, we concluded that the Ministry had not taken sufficient action to ensure that non-profit housing providers prudently managed their capital reserve funds and properly maintained their assets. We were particularly concerned that many non-profit housing providers:

- had not prepared and followed preventive maintenance plans and long-term capital plans that are based on competent assessments of the condition of their assets; and
- had not pooled capital reserve funds or employed other investment strategies to improve by millions of dollars the income earned on reserve funds and to reduce the incidence of borrowing from reserve funds for operating purposes.

The Ministry agreed with our recommendations and indicated that it would encourage and assist providers to better manage their assets and capital reserve funds using approaches acceptable to providers and to municipalities.

3.12 Management Board Secretariat Year 2000 / Information Technology Preparedness

In our 1998 report to the Legislature, *Year 2000: The Millennium Bug*, we concluded that the government needed to significantly accelerate its efforts in order to meet the target dates for ensuring that its computer systems would be Year 2000 compliant.

In view of the approaching deadline, in 1999 we followed up on the state of the government's readiness for the Year 2000 as well as the extent to which contingency plans had been developed to minimize disruption of government services and administration. We also looked at the government's procedures for supporting and monitoring progress in key parts of the broader public sector.

We found that, although significant progress had been made and a number of sound practices implemented, the government still needed to accelerate its Year 2000 compliance efforts in some key areas. At March 31, 1999, seven mission critical projects (systems essential to a ministry's operations or ability to provide service to Ontarians) and 49 business critical projects (systems that support mission critical projects, core businesses or internal operations) needed to be accelerated. Only three ministries had made substantial progress toward completing contingency plans. In the hospital sector, we were concerned that 30% of public hospitals had not responded to a Year 2000 readiness survey, and 21 of those that did respond did not expect their computer systems to be ready by December 31, 1999.

The Notes to the Financial Statements of the *Public Accounts 1998-99* state that, despite the government's efforts, "there remains a risk that all aspects of the Year 2000 issue affecting the government, including those related to the efforts of organizations in the broader public sector, suppliers and other third parties, will not be fully resolved."

In mid-summer of 1999, we provided to the government our overall and detailed review observations and recommendations. These included that the government should further accelerate the conversion of mission and business critical projects and the development of contingency plans, and intensify the monitoring of the readiness of public hospitals. We received progress and action-oriented responses to our recommendations from Management Board Secretariat.

3.13 Ministry of Training, Colleges and Universities Accountability Framework for University Funding

Ontario has the largest university system in Canada with 17 universities and the Ontario College of Art and Design. In 1998 their combined full-time enrolment was about 230,000 students and they had revenues and expenditures of approximately \$4.5 billion, of which \$1.6 billion was provided by the Ministry.

Neither the universities' incorporation statutes nor the *Ministry of Colleges and Universities Act* provide the Ministry with direct authority over university operations or academic affairs. However, the Ministry can and does exercise significant indirect authority over universities by attaching conditions to the funding it provides.

We concluded that recent steps taken by the Ministry to strengthen the accountability framework for university funding were not sufficient to enable the Ministry to determine how well the university system is meeting provincial needs and contributing to the achievement of

postsecondary education objectives. We also concluded that the accountability framework did not yet meet certain aspects of the Management Board of Cabinet requirements for transfer payment accountability.

In particular we noted that the Ministry had not:

- sufficiently linked funding to the achievement of provincial postsecondary education objectives;
- established expectations for university governance and accountability and encouraged universities to report publicly on their key governance and accountability processes, including those aimed at ensuring program quality;
- taken steps to ensure that program quality assurance processes were effective; and
- obtained sufficient, reliable information to determine the extent to which universities are currently meeting student and provincial needs and to assess the likelihood that forecast increases in the proportion of the population pursuing a university education will materialize and require a significant investment in additional capacity as well as several hundred million dollars annually in additional funding.

From our brief visits to five universities, we concluded that these universities had strengthened their governance and accountability processes in recent years. However, the governing boards of the universities visited had not yet:

- set measurable objectives and targets and reported publicly on their achievement;
- formally evaluated their presidents' performances against established objectives and ensured that other senior managers are similarly evaluated; and
- ensured that they are governing effectively by periodically evaluating the performance of both the board and its members, and by formalizing board member orientation.

The Ministry responded that our recommendations were timely and described actions that would be taken to address each of them.

3.14 Ministry of Transportation Provincial Highway Maintenance

To protect the provincial highways network from untimely deterioration and to ensure that highways are safe and usable, the Ministry performs routine highway maintenance services. In October 1996, the Ministry's highway maintenance outsourcing initiative was approved and, by March 31, 1999, approximately 30% of the provincial highways system had been outsourced. For the 1998/99 fiscal year, total funding for provincial highway maintenance was \$243 million.

We concluded that the Ministry did not have sufficient procedures to measure and report on program effectiveness. We found that the highway system had not improved appreciably since 1992 when we reported that a lack of timely maintenance contributed to a decline in the proportion of roads in good condition from 60% in 1979 to 40% in 1991. In 1998, only 44% of the province's highways were in good condition.

We also concluded that the Ministry had not achieved the estimated 5% savings on the outsourcing contracts we reviewed, which covered about 20% of the province's highway

system. The Ministry had also engaged contractors to perform preservation management work without tender and offered these contractors surplus ministry vehicles and equipment without going through the required public auction. Additionally, ministry procedures were not adequate to ensure compliance with legislation, policies, and contractual terms and conditions as maintenance coordinators stated that patrol areas were too large and there were insufficient staff to adequately monitor the work of contractors.

Accordingly, we made a number of recommendations to the Ministry, and the Ministry made certain commitments to take corrective action.

CHAPTER TWO

Toward Better Accountability

In all of my Annual Reports to date, I have used Chapter Two to address specific issues of governance and accountability in government. This year there are four issues that I believe warrant discussion to improve accountability to the Legislature for the prudent use of public funds:

- concerns regarding public accountability for the Ontario Innovation Trust;
- the need for guidelines for government advertising;
- the governance and accountability of Ontario's scheduled agencies; and
- legislative proposals for better public accountability.

ONTARIO INNOVATION TRUST

During the 1998/99 fiscal year, the province established the Ontario Innovation Trust and provided it with \$250 million for the purpose of increasing the capability of Ontario universities, colleges, hospitals and other non-profit organizations to carry out important, high-quality, scientific research and technology development.

The Trust was publicly announced in the *1999 Ontario Budget*. The payment of the \$250 million to the Trust was properly classified as a transfer payment in the accounts of the province for the 1998/99 fiscal year.

The Trust Agreement calls for the Ontario Innovation Trust to be administered by a seven-member board. The board is composed of three individuals appointed by the Lieutenant Governor in Council, and the remaining four appointed by: the Council of Ontario Universities (2), the Ontario Hospital Association (1) and the Association of Colleges of Applied Arts and Technology of Ontario (1).

An independent corporation was appointed Trustee and provides services in accordance with the terms of the Trust Agreement. Neither the Trustee nor the employees or agents of the Trustee are considered to be an agent, employee or partner of the Trust's sponsor (the Minister of Energy, Science and Technology) or the board. The Trust Agreement provides for an annual audit by an independent third party retained by the Trust's board.

In view of the fact that the government has flowed \$250 million in multi-year program funding to an arm's length entity, we reviewed the accountability structure under which the Trust would be operating. As a result of our review, we have concerns related to the business case supporting the decision to create the Trust and to the ability of the government and the Legislature to obtain assurance that the Trust is spending public funds prudently for the purposes intended and to take corrective action if it does not.

We raised these concerns in a letter to the Ministry of Finance and received the Ministry's response.

In our letter, we asked for information supporting the decision to create a trust as the method of service delivery rather than using the more traditional method of delivery through a Crown agency or ministry department, including the government's decision to take a minority position rather than a controlling one on the Trust's board.

In response, the Ministry advised that:

The objective of the Ontario Innovation Trust is to provide funding for research infrastructure projects. It was decided that a Trust operating at arm's length from the government would be the most effective method of service delivery. The majority of the Board will be comprised of the key stakeholders. They are undoubtedly the most qualified professionals to make these funding decisions, based on research quality and related strategic considerations of ultimate importance to the economic development of the Province. As you are no doubt aware, the Government of Canada established an arms' length Foundation called the Canada Foundation for Innovation which has a similar objective to the Ontario Innovation Trust.

The existence of these two like organizations, each funded separately by the governments of Canada and Ontario, is of some concern to us since they both have a similar objective and serve the same groups of beneficiaries in Ontario. This creates the need setting clear boundaries and good coordination of the activities of the Canada Foundation for Innovation and the Ontario Innovation Trust to assure taxpayers that duplications in funding and effort are avoided.

ACCOUNTABILITY ISSUES

The Management Board of Cabinet Directive on Transfer Payment Accountability provides a framework for the prudent management of provincial transfer payment funds by requiring that all transfer payments are managed with the following key accountability elements in place: defining expectations; establishing agreements; monitoring and reporting; and taking corrective action when necessary.

With regard to accountability, we raised the following concerns:

- As worded, the Trust Agreement effectively removes the Minister of Energy, Science and Technology, who is the named sponsor of the Trust, from the accountability cycle as it relates to the Trust. Therefore, the accountability of the Trust to the government and in turn to the Legislative Assembly is seriously impaired. For instance, Crown agencies are normally accountable to the Legislature through a minister, and it is usually the duty of the minister responsible to answer questions raised in the Legislature regarding government agencies. Since the Trust is not an agency of the Crown, there is no ministerial accountability for the activities of the Trust to the Legislative Assembly.

In addition, there is no requirement in the Trust Agreement for the government and/or the Legislature to receive information on the efficiency and cost-effectiveness of the board in achieving program objectives. There also appear to be no mechanisms whereby the government, via internal audit or other means, can review the operations of the Trust to

ensure that its decision-making process is well supported, its controls are sound and funds provided are spent prudently and effectively.

Currently, the spending of the initial \$250 million by the Trust, and any future funding that may be provided to it, are effectively outside the control of the government and the Legislature, which has no mechanism to independently review the program to ensure value for money for the taxpayer.

The Ministry of Finance responded to these concerns as follows:

The Ontario Innovation Trust Board is accountable to the beneficiaries of the Trust under the Trustee Act of Ontario and the government is represented on the Trust's Board. The Board and Trustee are accountable for funding and investment decisions and other powers and responsibilities as clearly set out in the Trust Agreement. There is also a requirement that the operations of the Trust Fund be audited annually by an independent third party and the results of this audit will be available to the public and the beneficiaries of the Trust.

Additionally...it is the intention of the Board to develop full and effective public accountability and reporting practices.

While the Ministry indicated the board's commitment to develop full and effective public accountability and reporting practices, the Trust Agreement does not specifically require the board to do so.

We will follow up in due course on the public accountability and reporting practices that the board implements.

- Because the Trust is not a Crown controlled corporation as defined in the *Audit Act*, its activities will not be subject to the following mandatory audit procedures specified for Crown controlled corporations by the *Audit Act*. The auditor of a Crown controlled corporation is required to:
 - deliver to the Provincial Auditor a copy of the audited financial statements and the management letter;
 - make available for review all working papers, reports, schedules and documentation requested by the Provincial Auditor; and
 - if requested by the Provincial Auditor, provide explanations and information as to the nature and extent of the audit work carried out and the results obtained.

As well, the Trust Agreement provides no mechanism for the Provincial Auditor to conduct, or cause to be conducted, additional examinations, such as value for money audits. Also, because the Trust is not an agency of the Crown, the Provincial Auditor will be precluded from performing inspection audits, as defined in the *Audit Act*, of the end recipients of government grants. We believe it is necessary for good accountability that, through the Provincial Auditor, the Legislature has a better audit regime than that currently stipulated in the Trust Agreement.

We are concerned that all of the foregoing weaknesses will significantly impair, if not negate, accountability to the Legislature for government grants that flow through the Trust to third party organizations.

We are of the view that, in future, any similarly structured trust agreements should include provisions for full public accountability, including performance reporting and a better audit regime. This would permit the Legislature to evaluate what was accomplished with the funding provided and to have the ability to recommend what, if any, corrective action needs to be taken.

GUIDELINES RECOMMENDED FOR GOVERNMENT ADVERTISING

During the latter part of 1998, the Office received several inquiries from the public questioning the appropriateness of the government's use of public funds for certain advertising and communications campaigns. The inquirers apparently interpreted some of the advertising to be of a party-political nature. In view of the public concerns expressed, we decided to research the subject of government advertising to determine what, if any, guidelines were in place to assist in differentiating between government advertising and party-political communications.

We reviewed the Management Board of Cabinet Directive on Advertising and Creative Communication Services which is the sole source of principles and guidelines for the acquisition of advertising and creative communication services. However, the Directive does not provide criteria to help distinguish between informative government advertising and party-political advertising.

The distinction between government advertising and party-political advertising can sometimes be unclear. In order to provide adequate public accountability on this subject, legislators and public servants need the tools to distinguish between government advertising appropriately funded by the taxpayer and party-political communications.

Although the Canadian federal government and the other nine Canadian provinces do not have guidelines in place to help distinguish between political and non-political advertising, from our preliminary review of information on the subject of government advertising, we found that a number of Commonwealth jurisdictions recognize the need for the establishment of policies and/or guidelines that clearly differentiate between political and non-political material.

The United Kingdom and New Zealand have adopted conventions acknowledging that it is quite legitimate for governments to use advertising to communicate with their publics. However, these conventions also recognize that there is a need for guidelines to be established for government advertising. For example, we noted that the government of New Zealand has guidelines in place that were principally drawn from the following 1989 suggestion of the New Zealand Audit Office:

*A government **may**, for example, disseminate material that:*

- *explains its policies;*
- *informs the public of government services available to them; or*
- *informs the public of their rights and liabilities under the law.*

*A government **should not**, for example, disseminate material that:*

- *is designed to promote, or has the effect of promoting, its interests above those of other parliamentary groupings; or*

-
- *is designed to secure, or has the effect of attempting to secure, popular support for party-political persuasion of the members of the Government.*

With respect to the wide public debate on the subject of government advertising, we believe it would be in the interest of improving public accountability for the government and/or the Legislature as a whole to consider the establishment of principles, guidelines and criteria that clearly define the nature and characteristics of taxpayer-funded advertising.

We provided the foregoing concerns and information to the Secretary of Cabinet on December 16, 1998. By way of letter dated January 26, 1999, the Secretary of Cabinet expressed appreciation for the material, which we enclosed with our letter. However, there was no indication what action is being taken to develop tools to assist legislators and public servants in distinguishing between government advertising that is appropriate and that which is party-political.

2.00

AGENCY GOVERNANCE AND ACCOUNTABILITY

Governance can be defined as the processes and structures used to ensure that a government agency is operating effectively, fulfilling its mandate and meeting its objectives, and is being held accountable for the expenditure of public funds. The governance framework for each agency is established by that agency's constituting instrument. The relationship between the government and the agencies is defined in directives approved by Management Board of Cabinet (MBC) and developed and administered by Management Board Secretariat (MBS). Effective governance is a key factor in ensuring that the citizens of Ontario are well served by these agencies.

Agencies are accountable to the government through the responsible minister as established in the agency's constituting instrument. Effective accountability requires that the roles and responsibilities of the minister, governing board and management be well defined. In addition, sufficient information should be available to monitor and evaluate agency performance without compromising agency independence.

During the past year, we reviewed the state of governance in Ontario's 315 provincially scheduled agencies with emphasis placed on operational agencies. Our review focused on three key accountability mechanisms: the memorandum of understanding; accounting for results; and annual reports. Our review included meeting with staff responsible for government agencies at both the ministry level and MBS, which is responsible for developing and administering the directives that govern the establishment and accountability of agencies. Additionally, we surveyed a sample of board members of operational agencies.

Our detailed observations and recommendations for strengthening the governance and accountability of government agencies were provided to MBS in a report to assist in its project to update the existing MBC directives on agency establishment and accountability. It is anticipated that MBC will approve the revised directive in the fall of 1999.

LEGISLATIVE PROPOSALS TO IMPROVE PUBLIC ACCOUNTABILITY

STATUS OF RECOMMENDATIONS FOR AMENDMENTS TO THE AUDIT ACT

Recent Standing Committees on Public Accounts have expressed their support for the Provincial Auditor's views and concerns regarding the current limitations of the scope of inspection audits of certain grant recipients under the *Audit Act*. In aggregate, provincial monies flowing to grant recipient organizations represent the single most significant fiscal demand on the province's Treasury. In 1998/99, grant recipient organizations received just over \$30 billion, which is about 50% of total government expenditures.

Under the current *Audit Act*, the Provincial Auditor may carry out only financial and compliance audits of grant recipients to determine whether the grants were used for the intended purposes. In early 1996, the Committee held public hearings on proposed amendments to the *Audit Act* and invited the deputy ministers of the main transfer payment ministries, representatives of the major transfer payment recipients and other interested organizations to meet and discuss the proposed changes. The primary objective of the proposed amendments was to provide the Provincial Auditor with the discretionary authority to perform value for money audits of organizations, such as community colleges, universities, hospitals, municipalities and school boards, which receive grants from the Province of Ontario or from an agency of the Crown. Other amendments, mainly of an administrative nature, were also proposed.

At the conclusion of the public hearing process on June 13, 1996, the Provincial Auditor submitted to the Committee specific draft proposals for amending the *Audit Act*. After discussion of the proposed amendments, the Committee unanimously adopted the following motion:

That the proposed amendments be provided to the Minister of Finance and that the Committee requests a response and action plan from the Minister of Finance by the Committee's first meeting following the Summer recess [September 26, 1996].

In a letter to the Committee Chair dated September 26, 1996, the Minister of Finance responded in part as follows:

The draft bill to amend the Audit Act as developed by the Provincial Auditor, in consultation with the Office of the Legislative Counsel, represents a significant step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.

I concur with the proposed amendments dealing with the administrative changes to modernize the Act and to have the Auditor express an opinion as to whether the province's financial statements are presented fairly in accordance with the accounting principles which the Canadian Institute of Chartered Accountants has recommended for governments. This requirement is consistent with the direction taken by the government in response to the recommendations of the Ontario Financial Review Commission.

With respect to the amendments affecting the auditing of transfer payment recipients, it should be noted that a number of initiatives are underway, including the Who Does What discussions, which may result in a significant restructuring of the nature and magnitude of the province's transfer payment arrangements. It may be more appropriate to assess needed changes to the auditing of transfer payments following this restructuring.

The Provincial Auditor met with the Minister of Finance on October 2, 1996 to discuss this subject and the timeframe for introducing a bill to amend the *Audit Act*, given the possible restructuring in the transfer payment area as a result of the "Who Does What" discussions. In this regard, it was the Minister's preference to await the outcome of the transfer payment restructuring exercise, which he expected to be substantially completed by the fall of 1997, before considering possible amendments to the *Audit Act*. By the summer of 1999, no action had been taken to amend the *Audit Act*.

2.00

THE PROPOSED PUBLIC SECTOR ACCOUNTABILITY ACT

In his 1997 *Ontario Budget*, the Minister of Finance stated:

To improve accountability in the public sector, the Government will introduce the Public Sector Accountability Act. This Act will require that public sector organizations:

- *report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants;*
- *adopt policies that ensure that the private sector has an open opportunity to compete to provide services to their organizations; and*
- *adopt and publicly report on organizational performance using private and public sector benchmarks.*

The expectation was that the Minister of Finance would introduce this Act during the Legislature's 1997 fall session. However, by the summer of 1999, the proposed Act had not been introduced in the Legislature for first reading.

On June 29, 1999, the Ministry of Finance provided the following update on the status of the proposed Public Sector Accountability Act:

During the past two years the Ministry of Finance has conducted a number of consultations with several key stakeholders on initiatives the government could take to improve public sector accountability including the implementation of a legislated accountability framework. Several important issues and questions arose out of these consultations. These issues included the best means of supporting ongoing improvements in accountability and governance practices, incentives to encourage increased accountability and the logistics of implementing enhanced accountability. To pursue these questions, the Ministry of Finance co-sponsored a symposium with the Canadian Comprehensive Auditing Foundation that brought together a small group of leading thinkers in the area of public sector accountability including the Provincial Auditor.

An initial review of the thoughtful discussion that took place at this symposium has provided the Ministry of Finance with a number of options which could support ongoing improvement in public sector accountability.

Further research into these and other options will be completed over the next year. The results of this review will help the government determine how best to proceed in supporting ongoing improvements in public sector accountability.

CONCLUSION

In his September 26, 1996 letter to the Standing Committee on Public Accounts, the Minister of Finance stated that the draft bill to amend the *Audit Act* represented “a significant step towards the fundamental reform of the public sector accountability system and I agree with the principles upon which it is based.”

The Provincial Auditor believes that the proposed *Audit Act* amendments are directly related to enhancing public sector accountability. Now that the government’s restructuring exercise has been completed, we again urge the government to consider implementing our proposed amendments to the *Audit Act*.

The Provincial Auditor continues to be a strong advocate of any legislation that enhances public accountability and looks forward to the Minister of Finance proceeding with public sector accountability enhancements through the proposed Public Sector Accountability Act.

CHAPTER THREE



Reports on Value for Money Audits and Reviews

MINISTRY OF THE ATTORNEY GENERAL

Family Responsibility Office

3.01

The Family Responsibility Office (the Office), formerly the Family Support Plan, is responsible for enforcing support orders. A support order is an order issued by the court or an agreement between two parties for the payment of money toward the support or maintenance of a child and/or spouse. The Office's responsibility includes collecting and disbursing support payments. All Ontario court orders made since July 1987 are automatically filed with the Office. In the cases of separation agreements and pre-July 1987 court orders, recipients of support payments may elect to file voluntarily with the Office.

An employer or income source such as a pension fund is required to deduct support payments from a support payor's income and submit these payments to the Office. The maximum amount that an income source can deduct is 50% of the payor's net income from that source. If there is no income source, or if the amount deducted is not sufficient or the payor is self-employed, then payments are to be made directly by the payor to the Office.

In August 1996, the then Family Support Plan began closing down its eight regional offices and consolidating to one central location, which opened in December 1996. This resulted in a reduction of staff from 340 to 200 and increased the backlog to more than 90,000 transactions. These transactions, some three to four years old, included changes to personal and financial information and unanswered correspondence. The large backlog of transactions was substantially cleared up by November 1997 with the help of temporary staff. By the end of 1998, staff levels were restored to those prior to the reduction.

In the fall of 1996, the Ontario Government began making major changes to family support legislation by introducing Bill 82, *The Family Responsibility and Support Arrears Enforcement Act*. The legislation was proclaimed in three phases in May and September 1997 and June 1998. The Act changed the name of the Family Support Plan to the Family Responsibility Office, made possible voluntary opting out of the program by consenting parties, widened the definition of "income" to include commissions and lump sum payments, and provided for additional tools to more effectively enforce support orders.

For the 1998/99 fiscal year, the Family Responsibility Office had 340 staff and incurred expenditures of approximately \$28.2 million, 69% of which related to salaries, wages and benefits. Over \$500 million was collected and disbursed during the year, compared to \$300 million in the 1993/94 fiscal year when we last audited this program. As of March 31, 1999, the Office had over 170,000 registered cases (126,000 cases at March 31, 1994). At that time, approximately 128,000 of these active cases were in arrears (96,000 cases at March 31, 1994). The arrears totalled \$1.2 billion (\$700 million at March 31, 1994).

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Family Responsibility Office had adequate systems and procedures in place:

- to enforce support orders and to ensure that services are delivered with due regard for economy and efficiency;
- to measure and report on the program's effectiveness in enforcing support orders; and
- to ensure proper accounting controls over the receipt and disbursement of support payments.

Our audit included a review of the Family Responsibility Office's administrative policies and procedures, interviews and surveys of enforcement officers, a review of case files and analysis of pertinent information and statistics. We met with representatives from client groups and private collection agencies engaged by the Office and obtained information from five other provinces with similar programs. Prior to the commencement of our audit, we identified the criteria that would be used to address our audit objectives. These were reviewed and accepted by the senior management of the Ministry.

Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

We did not rely on the Ministry's Audit Services Branch to reduce the extent of our audit work because the Branch had not issued any recent report on the Family Responsibility Office. Our fieldwork was substantially completed in March 1999.

OVERALL AUDIT CONCLUSIONS

The stated mission of the Family Responsibility Office is to strive to ensure justice for children and spouses by aggressively enforcing support obligations. We noted that when payors went into arrears, the Office did not have a satisfactory system of initiating contact and taking the appropriate enforcement action. Where enforcement action was taken, we found:

- gaps of often more than six months between actions; and
- frequent failure to pursue aggressive action when previous attempts were unsuccessful in obtaining support payments.

In its response, the Family Responsibility Office indicated that a number of initiatives were under way in terms of monitoring cases and pursuing enforcement actions in a more timely manner, which the Office expects to lead to a significant improvement in the overall compliance rate over the next two years.

The Office's policy of issue management, under which the responsibility of enforcement officers was limited to the issues on which they worked, resulted in inefficiencies in case management. We noted many examples where more than three enforcement officers had

worked on the same case; in one instance, eleven different officers were involved in one case over a span of two years.

The Office had spent over \$2.3 million on a computer services consulting contract relating to the installation of a front-end interface to the existing computer system. However, these technology enhancements did not address our 1994 audit findings relating to the computer system performance problems. According to the enforcement officers surveyed during this audit, the computer system was slow and often became unavailable.

In addition, with respect to the acquisition of the computer consulting services contract, we found that the Office had not complied with significant aspects of the Management Board of Cabinet Directive on Consulting Services and could not demonstrate that the project was managed with due regard for economy.

We concluded that although systems and procedures were in place, additional performance indicators could be used to better measure and report on the Office's success in increasing compliance with support obligations and improving service to the public.

We also concluded that the Family Responsibility Office generally had adequate systems and procedures in place to ensure proper accounting controls over the receipt and disbursement of support payments.

DETAILED AUDIT OBSERVATIONS

ENFORCING SUPPORT ORDERS

As at November 30, 1998, approximately 128,000 (75%) of the active cases registered with the Family Responsibility Office were in arrears. The arrears totalled \$1.2 billion and two thirds of the cases in arrears had been outstanding for more than one year. According to legislation, all payments made by payors are to be applied against the most recent amount due. A further breakdown of the arrears is shown in the following table.

Cases and Arrears at November 30, 1998

Amount in Arrears (\$)	Number of Cases	% of Total Cases	Arrears (\$ Million)	% of Total Arrears
Less than 5,000	75,258	59.0	99.6	8.3
Between 5,000 and 9,999	17,479	13.7	126.3	10.5
Between 10,000 and 24,999	21,689	17.0	346.1	28.7
Between 25,000 and 49,999	9,502	7.4	327.5	27.1
Between 50,000 and 99,999	2,981	2.3	198.3	16.4
100,000 and Greater	719	0.6	109.2	9.0
Total	127,628	100.0	1,207.0	100.0

Source: Office of the Provincial Auditor using Family Responsibility Office data

The Family Responsibility Office has available both passive and aggressive enforcement actions to pursue support orders in arrears. Passive enforcement actions include:

- permitting the payor to enter into an agreement to pay off the arrears according to a voluntary arrears payment schedule, which reflects the payor's ability to pay;
- obtaining a federal garnishment which can seize up to 100% of a payor's income tax refund and up to 50% of employment insurance benefits;
- reporting the payor to credit bureaus; and
- obtaining a writ of seizure and sale to secure any proceeds in the event of a disposal of assets by the payor.

Aggressive enforcement actions, many of which were introduced through new legislation in 1997 and 1998, include:

- suspending the payor's driver's licence, passport or other federal licences;
- garnisheeing the payor's bank account and up to 50% of his or her bank account with a third party;
- garnisheeing lump-sum payments and lottery winnings payable to the payor;
- bringing the payor to a default hearing; and
- obtaining a court order against a third party helping the payor avoid enforcement through sheltering assets.

The criteria and timing for taking different enforcement actions are generally outlined in the Family Responsibility Office's policies and procedures manual. For example, a driver's licence should be suspended when arrears are greater than three months or over \$3,000.

ENFORCEMENT ACTIONS

Overdue accounts are more likely to be collected if effort to collect is made as soon as the accounts become overdue and if the creditor is persistent in communicating and working with the debtor.

When a support order goes into arrears, the Family Responsibility Office takes action to report the payor's name to credit bureaus and request garnishment of his or her lottery winnings, if any. However, we found that any other enforcement actions only took place as a result of complaints made by recipients or persons acting on their behalf. The Office did not have a satisfactory process in place to initiate contact and request payment from payors in arrears. Two of the provinces we contacted indicated that generally a default letter would be sent to the payor within 15 days of an account going into arrears.

Further, we noted that even when enforcement action was taken, there were often gaps of more than six months between actions. In addition, more aggressive enforcement alternatives, such as driver's licence or passport suspension, bank account garnishment or a default hearing, were seldom pursued.

In July 1998 the Family Responsibility Office initiated steps to increase its collection efforts. A project team of approximately 20 enforcement officers was assigned the responsibility of following up on certain cases that had received no payments. This project covered about 40,000

cases or one third of the total number of cases in arrears. For example, it excluded cases in arrears that were made up of those payors who had made partial or occasional payments.

Although the Family Responsibility Office had initiated the project mentioned above, we found that, as at the end of February 1999, only approximately 16,000 of the 40,000 cases targeted for enforcement actions had been followed up by the Office. In many cases, it still took more than two months to initiate contact with the payor. In addition, as in most other cases, more aggressive enforcement actions were seldom taken when the payor did not pay as requested.

Recommendation

To help ensure recipients are getting the support payments to which they are entitled, the Ministry should improve its procedures for enforcing support orders. Specifically, it should:

- **initiate contact with payors as soon as payments are in arrears; and**
- **take more timely and aggressive enforcement actions.**

Ministry Response

The Family Responsibility Office has a strategy that should lead to a significant improvement in the overall compliance rate over the next couple of years. In addition to the initiatives that are underway, this strategy has a number of other components including:

- *calling payors who are chronically in arrears;*
- *targeting specific cases for more aggressive enforcement, based upon credit bureau rating of payors;*
- *following up on driver's licence suspension cases with default hearings if the case remains in default; and*
- *educating the public about the importance of child support.*

The overriding principle is that cases will be targeted according to their characteristics in order to maximize the effectiveness of actions taken.

The Office has now instituted an enhanced 30-day follow-up procedure for all cases where enforcement actions have been taken to ensure that dollars are starting to flow. If the enforcement has been unsuccessful, staff are to take more aggressive enforcement actions. Staff are to follow the case monthly until all the arrears are paid up.

The implementation of this enforcement strategy is leading the program to taking more timely and aggressive enforcement actions proactively. The Office expects that it will take two years to fully realize the impact of its more aggressive enforcement activity.

INTEREST

Under *The Family Responsibility and Support Arrears Enforcement Act*, the Director of the Family Responsibility Office is responsible for enforcing support orders which are defined to be payments of money as support or maintenance and includes provisions for a number of types of payments, including interest.

In our 1994 Audit Report, we noted that the Family Responsibility Office did not record or calculate the interest on arrears for those cases where the court orders stipulated that interest was applicable, unless the recipients themselves requested the interest and provided the calculation to the Office. At that time, we recommended that the Office investigate alternative methods for ensuring that all recipients receive the interest on arrears to which they are entitled.

In our 1996 follow-up report, the Ministry indicated that addressing this issue would not be cost effective since the number of cases in which interest was recoverable might not be significant.

We noted from a sample of cases that approximately 60% of the cases registered within the past two years had a specified interest rate stated in the court order for amounts in arrears, compared to only 18% of the cases prior to that time. The Family Responsibility Office generally did not calculate interest on the amounts in arrears. We estimated that, as of November 30, 1998, the amount of interest not charged on defaulted amounts for cases registered within the last two years alone was \$400,000. This amount represented interest on only 2% of the total outstanding arrears balance. Therefore, in total, interest on arrears is likely to be more significant.

Management had indicated to us that the Office advises recipients when they first register with the program that it is their responsibility to calculate interest on arrears and provide their calculations to the Office. However, we noted that under the Act, it is the Family Responsibility Office's responsibility to enforce support orders. Also, due to the complexity of some support orders, we questioned whether it is practicable to expect recipients to make the interest calculations.

Recommendation

To help ensure compliance with support orders and to encourage prompt payment from payors, the Ministry should compute and charge interest on arrears for those cases where the court orders stipulate that interest is applicable.

Ministry Response

The Family Responsibility and Support Arrears Enforcement Act stipulates a number of instances where the Director may refuse to enforce an order, including situations where enforcement of the order is "unreasonable or impractical." Presently, the Family Responsibility Office's computer system is unable to automatically accrue and calculate interest owing on support arrears. The Office lives up to its legal obligations by having the recipient (where they choose to do so) calculate the interest owing, which can be attached to a sworn statement of arrears.

The Office decided for business reasons that it was not efficient or economical for its staff to calculate the interest. The higher priority for the Office is enforcement. Thus, the responsibility for calculating the interest rests with the recipients who have the information concerning when payments were due, the dates payments were made, and any resulting interest accrued.

The Office will be revising its brochure to clarify that recipients should file the Statement of Arrears for interest owing on an annual basis.

Ontario is an active participant in the federal/provincial/territorial forum which is engaged in ongoing discussions concerning administrative options for improving and streamlining the process. The matter of interest, and other special provisions in court orders, will be referred to that forum.

USE OF PRIVATE COLLECTION AGENCIES

In July 1998, as a pilot project, the Family Responsibility Office signed one-year contracts with three private collection agencies to follow up on those cases that had been in arrears for over three years without any payment from the delinquent payor. Cases were transferred to private collection agencies commencing October 1998.

As of March 31, 1999, the Office had transferred 19,000 cases with arrears totalling approximately \$394 million to the private collection agencies. The fees charged by the collection agencies were added to the balances owed by the payors. The total amount collected through this initiative between October 1998 and March 1999 was over \$1 million.

At the end of the one-year pilot project, the Family Responsibility Office plans to review the effectiveness of using private collection agencies. We will follow up on this initiative during our next audit of the Office.

ACCOUNT INFORMATION

We noted that the Family Responsibility Office did not have a system in place to periodically provide payors and recipients with details about their accounts, including personal information, amounts paid and received and the account balance. The Office's practice was to obtain and provide such information only at the request of a payor or recipient. According to the Office, it would cost approximately \$170,000 per mailing to provide all payors and recipients with an account statement.

Rather than relying on payors and recipients to provide updated information, a more formal system of communicating with these clients, such as a periodic account statement, would help the Office verify that its records were current and correct. This in turn would help to reduce unnecessary enforcement work and the number of telephone calls from concerned clients.

For example, as part of the private collection agencies' pilot project in 1998, the Office requested written permission from recipients to allow the agencies to contact payors for collection purposes. Subsequently, some of these recipients advised the Office that the accounts were in fact not in arrears as they had been receiving payments directly from the payors. As a

result of this communication with the recipients, the balances for approximately 700 accounts were reduced by a total of \$16 million.

Recommendation

To ensure accurate, up-to-date records are kept on payors' and recipients' accounts, the Ministry should establish a process to periodically verify with payors and recipients important information pertaining to their accounts.

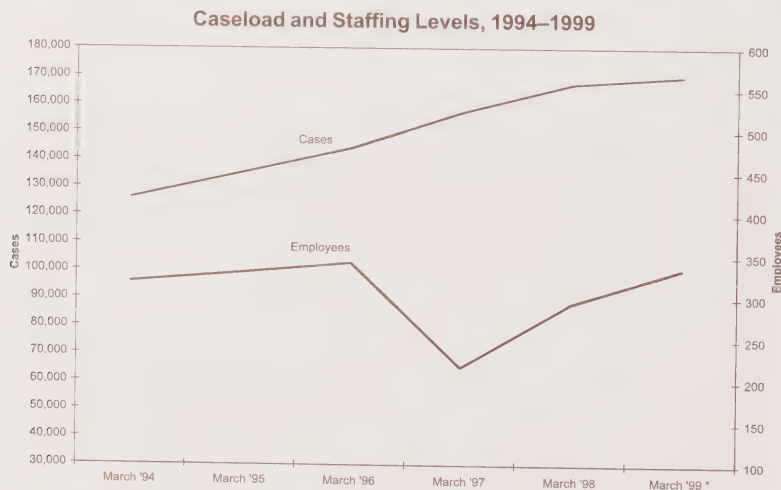
Ministry Response

It is the clients' responsibility to keep the Family Responsibility Office informed of all current information. The Office uses the telephone automated information system as the mechanism for providing payors and recipients with payment information.

As part of the Office's initiatives to pursue enforcement actions in a more timely manner and to better educate the clients, the Office will be proactively enforcing against payors in arrears, thereby ensuring that payors provide the Office with up-to-date information. This will allow the Office to maintain more current and accurate information.

CASELOAD

The following chart illustrates the changes in the Family Responsibility Office's caseload and staffing levels for the five years ending March 31, 1999.



* The caseload at March 31, 1999 includes 19,000 cases that were transferred to private collection agencies commencing October 1998.

Source: Office of Provincial Auditor using Family Responsibility Office data

As shown in the chart, the caseload has increased in five years from 126,000 cases to over 170,000 cases (35%) while the staffing level, after declining in 1997, has remained at the 1994 level. While additional enforcement officers may be needed to handle the increase in caseload, our audit identified areas where opportunities existed to improve officer productivity through managing cases more efficiently, using management information to monitor performance, and addressing operational issues related to the computer system.

CASE MANAGEMENT

At the time of our audit, there were about 120 full-time enforcement officers (client service associates) and 80 contract or temporary enforcement officers (client service clerks) assigned to enforcing support orders. Their responsibilities included responding to telephone inquiries and taking passive enforcement action. Client service associates were also responsible for carrying out aggressive enforcement action.

The Office has a policy of issue management. As a result of an inquiry or information received, client service associates assume temporary ownership of a case which requires action or follow up. Once the action is completed, the officer generally releases ownership and no longer has responsibility for the case. Client service clerks also perform these duties but they do not have ownership of any cases.

According to the Office, under issue management, enforcement officers are able to respond to client inquiries in a more timely manner. However, we noted that in general their responsibility was limited to the issues on which they worked. They were not responsible for monitoring the case as a whole to ensure payments were made on time and taking appropriate enforcement action, where necessary. As discussed under the section on Enforcement Actions, we found gaps of often more than six months between enforcement actions.

Under issue management, several enforcement officers could be working on the same case. It is inefficient if too many officers are involved and all of them have to be familiar with the same case. We noted many examples where more than three people had worked on the same case; in one case, eleven different officers were involved over a span of two years.

The five other provinces we contacted all adopted a case management approach where responsibility for monitoring support payments and taking the appropriate enforcement action on each case was specifically assigned. This allowed for greater accountability of the enforcement officer's action on a case compared to the issue management approach. Almost all the enforcement officers we interviewed at the Office preferred a case management system.

Recommendation

To be more effective in collecting support payments and to ensure better accountability and efficiency, the Ministry should review its current approach to deploying enforcement officers and take appropriate action to correct any deficiencies.

Ministry Response

The Family Responsibility Office is moving to a new model for assigning cases which will ensure better individual staff accountability and efficiency for the program. A multi-disciplinary team approach, which will see all files assigned to one of seven teams, has been selected. Files requiring aggressive enforcement will be assigned to client service associates until the case is in full compliance.

MANAGEMENT INFORMATION

When an inquiry or information is received on a case, enforcement officers enter a message into the computer user log that details the conversation, information provided and action taken. The system then automatically assigns a date for the next required action. The Family Responsibility Office's management information system produces a report indicating cases temporarily owned by each client service associate and the corresponding date for the next required action.

We reviewed the files assigned for a sample of client service associates and noted that, on average, 35% of all cases did not have a message entered into the user log and therefore did not have a date for the next required action. Where such dates were noted in the user logs, we found that in about half the cases they were more than 30 days past due.

Managers of enforcement officers periodically receive a case ownership report which indicates the number of cases temporarily assigned to each client service associate, the date of the oldest assignment, and the average period of ownership. However, they do not have reports that summarize and provide information on:

- enforcement actions taken on a case;
- cases without a date for the next required action;
- cases with a date for the next required action that had not been acted on; and
- amounts of support payments collected that can be directly attributed to specific enforcement actions, where possible.

This information could be used to help monitor the work of staff and improve efficiency and effectiveness by focusing collection efforts on those enforcement actions that are considered most successful. It could also be used to identify training requirements for enforcement officers.

Recommendation

To ensure timely, appropriate enforcement action is taken, the Ministry should improve the quality of management information and make better use of the available information.

Ministry Response

Managers and staff will identify enhancements to the computer system, including additional management reports, to further support their work. The Family Responsibility Office maintains an ongoing list of such technology enhancements, and plans to implement them on a prioritized basis once work to ensure Y2K readiness is completed.

COMPUTER SYSTEM

The Family Responsibility Office's computer system, Maintenance Enforcement Computerized Accounting (MECA), is designed to record support payments and keep track of the cases registered, arrears owed and enforcement action taken. In our 1994 audit, we noted that this computer system was inadequate for supporting enforcement efforts. For example:

- users had to undergo a cumbersome process of navigating among a number of screens in order to obtain information on case activities;
- programming enhancement took considerable time because of missing or poor documentation;
- staff were not provided with a summary of the cases that had information missing, such as payors who could not be located, so that further action could be taken; and
- management was not provided with a listing of all cases with voluntary arrears payment schedules and the amount of arrears associated with these cases.

We recommended in our 1994 report that the Office improve its computer systems and ensure that the deficiencies identified are corrected. In response to our recommendation then, and again in our follow-up report in 1996, the Ministry stated that "the current computer system must be replaced."

In 1998, the Office added a front-end interface, Family Responsibility Office New Technology (FRONT), to the MECA computer system. FRONT consisted of three components: graphical user interface, desktop printing and document scanning. However, our previous audit findings relating to system performance were not addressed by the installation of these technology enhancements. The MECA functions and file structure remained substantially unchanged. At the time of our current audit, there was still no documented analysis of alternative solutions to MECA's performance problems.

We also found that, on a number of occasions, the system was either fully or partially unavailable during business hours. Enforcement officers rely heavily on the computer system to carry out their duties. Our survey of 40 enforcement officers indicated that 80% felt the computer system did not allow them to carry out their duties in an efficient and effective manner. Many indicated that the system was slow and often became unavailable. Since the Office did not regularly track system availability, our survey asked the enforcement officers for their experience of the system's downtime. The results indicated that, on average, the system was not available for more than half an hour each day and the officers indicated that they were not productive when the system was down.

A significant deficiency that adversely affected MECA's performance was its lack of an archive function. Transaction information continues to accumulate in the system taking up additional data storage capacity. Cases that were closed years ago are kept in the same storage medium as current cases. As a result, it takes longer each day to search case information, enter data and perform overnight updates.

Recommendation

To prevent disruption of services, the Ministry should take steps to improve the performance and availability of its computer system, including:

- **correcting the problems that have caused the system to be slow or unavailable; and**
- **developing and implementing a data archive function.**

Ministry Response

The Family Responsibility Office will be addressing the performance problems of its computer system in three ways:

- ***doing an architectural review of the Maintenance Enforcement Computerized Accounting system once the Y2K freeze is over;***
- ***hiring a consultant to do an availability and reliability audit of the whole system, and make recommendations; and***
- ***upgrading the document imaging software and database server in order to handle the higher volume of users.***

In the meantime, availability tracking was instituted effective March 1, 1999.

Developing and implementing a data archiving function will be part of the architectural study next year.

COMPUTER SYSTEM DEVELOPMENT CONTRACT

We reviewed all consultant expenditures over \$25,000 (13 vendors totalling \$3.4 million) to assess whether the services were acquired in a competitive manner in accordance with Management Board directives and ministry policy. Overall we found that services were acquired in a competitive manner and in accordance with procedures, except for one case, which accounted for over half of the above expenditures.

In November 1996, the Family Responsibility Office requested proposals for computer consulting services to review the existing computer system, identify needs and make recommendations (Phase I) and implement technology solutions (Phase II). The Office anticipated that the vendors would only be able to quantify fixed pricing on Phase I. However, based upon the information available in the request for proposal (RFP), the Office asked that the vendors attempt to describe their initial proposed solutions and costs for Phase II, the procurement and implementation of the computer system. The Office noted in its RFP that it reserved the right to terminate the contract at the end of Phase I and re-tender for Phase II.

The federal government, under the terms of the Development of Justice Child Support Implementation and Enforcement Fund, is providing 60% of the funding for both phases of this project.

A steering committee consisting of senior ministry representatives was established to oversee the selection of the vendor and the implementation of the project plan, and to review and approve any change requests to the project. Once the vendor was selected, representatives of the vendor also attended the committee meetings to provide updates on the project, answer questions and discuss change requests.

COMPETITIVE ACQUISITION PROCESS

Six vendors submitted proposals with bids ranging from \$45,000 to \$500,000 for Phase I and \$300,000 to \$1.8 million for Phase II. Following an evaluation process which primarily focused on Phase I, the Office awarded a contract for Phase I to the vendor who had the third lowest bid at approximately \$114,000. The successful vendor also had the highest bid for Phase II at \$1.8 million.

Phase I resulted in the development of a Technology Solution Report by the vendor at the end of January 1997 which identified seven major system components for implementation. In February 1997 the vendor submitted a Project Price Summary Report to the Office quoting a price of \$2.1 million for consulting services relating to the seven system components. The Office's senior management indicated that the cost to implement all seven components was double the amount of money available to the Office in 1997/98 for technology improvements. Consequently, the Office decided to purchase the vendor's consulting services for the first three components only (the FRONT interface previously described under the section Computer System). We noted that, out of the seven system components, the Project Price Summary Report included a breakdown of the costs (for example, number and position level of consultants, hours of work and price per consultant) for the three components only.

A contract was signed with the same vendor in April 1997, without further competition, for the purchase of consulting services relating to the implementation of the first three components at a price of \$969,000.

Management Board of Cabinet's Directive on Consulting Services states that agreements that follow within the same project may be awarded to the vendor awarded the first agreement without further competition, provided that all of the following conditions are met:

- the total potential scope of work to be contracted was disclosed as part of the initial request for proposal for the first agreement;
- the terms of the first agreement had been fulfilled and the supplier's performance was satisfactory;
- the total value of all agreements to the same supplier is less than \$500,000;*
- the total value of all follow-on agreements to the same supplier is less than double the ceiling price of the first agreement; and
- approval of the deputy head has been obtained.*

** approval of both the deputy head and the responsible minister must be obtained when the total value of the agreements to the same supplier is \$500,000 or more.*

We noted that the Office did not comply with three of the Management Board of Cabinet Directive requirements as the total value of the agreements was more than \$500,000 and the total value of the follow-on agreement to the same vendor was more than double the ceiling price of the first agreement. In addition, there was no evidence that approvals of the Deputy Attorney General and the Attorney General had been obtained, as required.

Management indicated that the reason for not requesting further competition for the three system components under Phase II was that project staff and the steering committee were satisfied the vendor had a good understanding of the program's business processes and its plan to improve service delivery was logical and feasible. They further indicated that the Office was committed to completing its restructuring and re-engineering initiative.

Management also maintained that the vendor had indeed submitted a competitive bid for Phase II at \$1.8 million. However, we noted that this bid was submitted in November 1996, before the vendor's work on reviewing the existing computer system had even started. Its Technology Solution Report with tangible deliverables for Phase II was completed in January 1997. Therefore, it would not have been possible for the vendor to provide an accurate estimate of the costs for implementing Phase II in its initial bid.

In fact, we noted that the \$1.8 million Phase II bid submitted in November 1996 included only a two-page, general description of costs that could not be tied in to the price of \$969,000 in the contract signed with the vendor in April 1997. For example, the November 1996 bid included approximately \$800,000 for the costs of computer hardware and software components. However, the contract signed in April 1997 with the vendor, which covered three of the seven system components for \$969,000, included the price for consultants only. The hardware and software components required for implementation of Phase II had to be acquired separately by the Office from other suppliers.

CHANGE ORDERS

Management Board of Cabinet's Directive on Consulting Services states that, in order to determine value for money, a firm ceiling price must be tied to tangible deliverables, except under certain conditions. Additionally, in all cases in which changes to the terms and conditions for any agreement increase the ceiling price, documentation and prior approval by the deputy head or designate are required of:

- the changes and/or additions;
- the method used to arrive at the revised ceiling price; and
- the reason why the need for changes and/or additions were not foreseen prior to agreement signature.

Prior approval is required by both the deputy head and responsible minister for a change or changes to the agreement ceiling price that cause the total value of the agreement to reach or exceed \$500,000.

The Phase I contract was awarded in December 1996 and was substantially completed in January 1997. However, an amendment was made to the contract to allow the vendor to verify the requirements to ensure the detailed hardware and software specifications were correct. The amendment increased the price of the Phase I contract from approximately \$114,000 to

\$214,000 and extended the expected date of completion to March 31, 1997. There was no documentation to specifically demonstrate how the increase in price was calculated.

During the implementation of Phase II from June 1997 until December 1998, there were ten subsequent change orders to the contract which totalled \$1.1 million and brought the total price for the three system components from \$969,000 to over \$2 million. The change request forms specified the overall increase in the contract price and the reason for the change. However, they did not provide detailed information to support the reasonableness of the price increases such as the number and position level of consultants, the charge-out rate and the duration of work.

Although the Office had already paid \$214,000 in Phase I to allow the vendor to define the project's deliverables and to verify the hardware and software requirements, we noted that the number (10) and dollar value (\$1.1 million) of change orders for Phase II were very high. As mentioned previously, the Ministry had established a senior management steering committee to manage the Phase II contract and related change orders. However, we noted that the Ministry had not complied with the following Management Board of Cabinet Directive requirements:

- There was a lack of documentation of the method used to arrive at the revised ceiling price and to specifically explain the reason why the need for each change and/or addition was not foreseen prior to signing the agreement.
- Prior approval of both the Deputy Attorney General and the Attorney General had not been obtained, even though the total value of changes to the agreement, at \$1.1 million, had exceeded the \$500,000 limit established in the Directive.

In conclusion, we found that the Office had not complied with significant aspects of the Management Board of Cabinet Directive, nor could it demonstrate that this project was managed with due regard for economy.

Recommendation

To ensure that the acquisition of consulting services is obtained at the best price, the Ministry should comply with Management Board directives, including undertaking a competitive selection process and obtaining the appropriate level of approvals for all future contracts and change orders.

Ministry Response

The Ministry established a special diligent process by senior management to review the business value for every change improvement during the course of the technology implementation. The Ministry believes the rigorous process had integrity and that it achieved the business objectives of improving service to families.

The Ministry recognizes the need to ensure mandatory policies for engaging consultants' services are followed in all cases. The Ministry has now established processes to ensure future acquisition of consulting services are in compliance with all aspects of the Management Board directives.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

PERFORMANCE INDICATORS

The stated mission of the Family Responsibility Office is to strive to ensure justice for children and spouses by aggressively enforcing support obligations. A number of key goals were established in relation to the mission, including increasing compliance with support obligations and improving service to the public. The Office's management information system reported a number of indicators to help assess the extent to which the goals were achieved, such as:

- average wait time on the telephone for clients on hold;
- percentage of payments collected from payors and turned over to recipients within two days;
- number of complaints received through the Ombudsman;
- compliance rate;
- number of cases and total amount in arrears; and
- statistics on amounts collected as a result of driver's licence suspensions.

The above indicators are useful for measuring the Office's success against its key goals. Another important indicator that we believe should be reported is the age of accounts in arrears. It is an indicator commonly used to measure the success of an organization's collection efforts over time.

CALL CENTRE

After centralizing the regional offices in 1996, a call centre was created and payors and recipients throughout the province were able to obtain basic case information from an automated voice response system, including any enforcement action taken on a particular case. Clients seeking to obtain or provide more detailed information on their case were able to speak to an enforcement officer. In October 1997, the phone service hours increased by 30% with the introduction of extended hours (Monday to Thursday 8:00 a.m. to 7:00 p.m.).

The Family Responsibility Office tracked and reported in its internal monthly reports the number of calls answered daily and the average time a caller was on hold. During 1998/99, the Office responded to over 1,700 calls per day compared to 400 calls per day in the fall of 1996. The average waiting time on hold has been reduced from 30 minutes to about 9 minutes.

In August 1998, the Office implemented computer software that provided data on the number of calls receiving a busy signal, or blocked calls. This information was not reported in the Office's monthly reports due to management's concern about the reliability of the data. We conducted our own test by calling the Office every day between August and December 1998. During that period, 43% of our calls were not completed after three successive attempts due to busy signals.

In addition, the Family Responsibility Office's enforcement officers spent roughly half of their time answering over 400,000 calls from clients per year, yet the Office had never conducted a client satisfaction survey. A client satisfaction survey would be useful in assessing the extent

to which the Office is meeting its expectations and help in planning new strategy and improvements in service delivery.

Recommendation

To better measure its success in increasing compliance with support obligations and improving service to the public, the Family Responsibility Office should develop and report additional performance measures, including:

- the age of accounts in arrears;
- the number of blocked calls to its call centre; and
- the results of periodic client satisfaction surveys.

Ministry Response

The Family Responsibility Office has a large number of performance indicators which assist the Office in successfully meeting its approved business plan and customer service objectives.

The Office is committed to customer service and, as such, extended its hours of service in the call centre by 30%. The Office recommends to its clients that they call through the non-peak times.

With respect to performance measures on blocked calls, the Family Responsibility Office has not been able to find a reliable product anywhere in the North American market to accurately capture this information. The Office is in the process of implementing a computer telephone integration application, which will enable it to better manage the call centre (for example, repeat callers). As service continues to improve, the issue of blocked calls will diminish.

One client satisfaction survey has been conducted this year to establish baseline data. It was a telephone survey conducted by managers of the Office and the results have been very encouraging. The Office is planning to conduct a second survey, possibly by mail, later this year.

RECEIPT AND DISBURSEMENT OF SUPPORT PAYMENTS

REGISTRATION OF CASES

A court order or separation agreement includes key information such as the name of the payor and recipient, the amount of support payment, the payment due date, and whether the support amount includes cost-of-living adjustments. Once the Family Responsibility Office receives a court order or separation agreement, the key information is entered into the computer system. Approximately 1,400 new cases are registered with the Office each month.

Our tests of a sample of cases registered revealed that new cases were registered on a timely basis and key information was accurately captured on the computer system.

PROCESSING OF SUPPORT PAYMENTS

Under the old Family Support Plan, support payments were mailed or delivered in person to the Family Responsibility Office where they were manually processed. It often took up to one week for recipients to receive their payments. In the past two years, the Family Responsibility Office had introduced a number of electronic remittance options to improve services and speed up processing time. At the time of our audit, approximately 25% of all payments from payors were received electronically. The remaining payments were primarily processed by a bank on the Office's behalf, and the payment information was converted to electronic format and sent to the Family Responsibility Office.

On a daily basis, the Family Responsibility Office disburses to recipients the support payments received from the payors or income sources, either by issuing cheques or depositing funds directly into recipients' bank accounts. At the time of our audit, 85% of all disbursements were made through direct deposits.

Our testing revealed that accounting controls over the receipt and disbursement of support payments were generally satisfactory. The majority of support payments were processed within 48 hours of receipt.

VOLUNTARY WITHDRAWAL FROM THE PROGRAM

The new *Family Responsibility and Support Arrears Enforcement Act* allows consenting parties to opt out of the Family Responsibility Office and deal directly with one another, as long as they are not prohibited from doing so under their court order.

In order to opt out of the program, both payors and recipients must place their request in writing to the Family Responsibility Office. If the recipient is receiving social assistance, the Ministry of Community and Social Services (COMSOC) must also consent to the withdrawal. Since this option became available, more than 6,000 cases have been voluntarily withdrawn. Once the parties opt out, the Office stops all enforcement action. This allows the Office to focus its efforts on cases where support payments are not being made.

Our testing revealed that the Family Responsibility Office had, as required, obtained written consent from both payors and recipients, as well as COMSOC where applicable, prior to withdrawal from the program.

ASSIGNED CASES

Where a payor fails to make support payments and a recipient has to rely on social assistance, the province is entitled to recover any funds eventually collected from the payor up to the amount of the social assistance provided. COMSOC is required to send a notice informing the Family Responsibility Office that the case has been assigned to it and that any support payments received by the Office are to be retained by the province instead of sent to the recipient. According to the records maintained by the Office, at March 31, 1999, there were approximately 29,000 assigned cases and about \$347 million owing to the province. For the 1998/99 fiscal year, the Office collected about \$47 million for the province.

In our 1994 Audit Report, we noted that there were significant delays in receiving assignment notices from COMSOC and recommended that an effective process be established to ensure that assignment notices were submitted on a timely basis.

Our current audit revealed that there continue to be significant delays in receiving assignment notices from COMSOC. It took, on average, more than three months from the date that the recipient became eligible to collect social assistance to the date that the Family Responsibility Office received the assignment notices. Once received, the Office took another month to update its database with details of the assignment. In about half of the cases we examined, the Office had received payments from payors during the delays. The payments were in turn forwarded to the recipients rather than to COMSOC.

COMSOC has access to the Family Responsibility Office's database to identify and recover the overpayments from recipients resulting from the delay. However, we estimated that over the past five years approximately \$700,000, or one third of the total overpayments, had not been recovered.

Once the assignment was noted on the Family Responsibility Office's system, all subsequent funds received from the payors were promptly forwarded to COMSOC.

Recommendations

To ensure the province receives all the funds to which it is entitled, the Ministry should work with the Ministry of Community and Social Services to ensure assignment notices are received on a timely basis.

The Ministry should also ensure that the Family Responsibility Office's database is updated immediately on receipt of the assignment notices from the Ministry of Community and Social Services.

Ministry Response

The Family Responsibility Office is working on an ongoing basis with the Ministry of Community and Social Services regarding the management of assigned cases. The Office has now reduced its turnaround time on assignment notices from one month to one week.

Office of the Public Guardian and Trustee

The Office of the Public Guardian and Trustee (the Office) operates under the *Public Guardian and Trustee Act* and various other provincial statutes. Its primary responsibilities include providing services to mentally incapable persons by:

- acting as the guardian of property and/or personal care for mentally incompetent individuals;
- acting as the treatment decision-maker of last resort for persons who are not capable of making their own decisions and who have no one else to make these decisions for them; and
- screening and monitoring private applications to replace the Office as guardian.

Other primary responsibilities of the Office include:

- the administration of estates of persons who die in Ontario without a will and without known relatives;
- gathering assets on behalf of the Crown when there is no known owner of these assets or the owner is a corporation no longer in existence; and
- a general supervisory role over charities and charitable properties to protect the public's interest.

In addition, as a result of the 1997 *Government Process Simplification Act*, the duties of the Office were recently expanded to include those of the Accountant of the Ontario Court.

The Accountant of the Ontario Court is the depository for all monies, mortgages and securities paid into, or lodged with the court. These assets are received and disbursed pursuant to judgments and orders of the court. The Accountant of the Ontario Court also administers monies received by the court to the credit of minors until they reach the age of majority.

The Office charges fees for its services to incapable clients and for administering estates. Service fees vary in accordance with amounts permitted by legislation, based on the size of assets, income receipts and services required. Total service fees collected in the year ended March 31, 1999 amounted to \$12.6 million. No service fees are charged for deposits to the Accountant of the Ontario Court.

The Office's head office is located in Toronto with regional offices in Toronto, Hamilton, London, Ottawa and Sudbury. For the fiscal year ended March 31, 1999, the Office had approximately 250 staff, operating expenditures of over \$21 million and managed assets of approximately \$970 million.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Office had adequate systems and procedures in place:

- to measure and report on the effectiveness of the key services and programs delivered; and
- to ensure that such services and programs were delivered in compliance with legislative requirements and with due regard for economy and efficiency.

Our audit focused on three core programs of the Office: Services to Incapable Persons, Estate Administration and the Accountant of the Ontario Court. Prior to commencement of the audit, we identified audit criteria to address our audit objectives. These criteria were reviewed and accepted in September 1998 by senior ministry management.

The scope of our audit, which was substantially completed in February 1999, included interviews with staff at head office and three of the five regional offices as well as reviews of client files, the Office's policies and procedures, and relevant management reports. We also reviewed and, where warranted, relied on internal audit work performed by the Office's staff to reduce duplication of audit work. We did not rely on the work of the Ministry's Audit Services Branch because it had not issued any recent reports on the Office.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

OVERALL AUDIT CONCLUSIONS

We concluded that the Office had procedures in place to measure and report on the effectiveness of its key services and programs. However, for the most part, the performance results reported by the Office did not meet its performance targets.

The Office's systems and procedures were not adequate to ensure compliance with legislative requirements and due regard for economy and efficiency in the management of client assets and financial affairs. Specifically, we found a number of cases in which the Office, in providing services to incapable persons, had:

- acted on behalf of clients without the proper authority;
- failed to obtain income entitlements for clients;
- failed to identify and account for client assets in a timely manner; and
- failed to dispose of unused assets to maximize value to clients and avoid unnecessary expenses.

Management reported serious errors in 33% of guardianship files and a high number of negligence claims. We are especially concerned that procedures were not effective in ensuring corrective action, even when significant problems had been reported to the Office's senior management.

For the administration of estates for individuals who died without a will or next-of-kin, we noted a lack of adequate effort by the Office in locating potential heirs to the assets of estates that had files opened prior to 1996. Under the *Escheats Act*, if heirs cannot be located, the assets of an estate become payable to the province ten years after an individual's death. The lack of search efforts resulted in unnecessary compensation charges imposed by the Office over the ten-year period.

The Accountant of the Ontario Court is the custodian of assets paid into court, including monies to the credit of children until they reach the age of majority. However, the Accountant of the Ontario Court indicated that it did not have a legal obligation to locate account holders and notify them of their assets. We found 1,300 accounts for minors with a value of over \$13 million belonging to clients who were at least 25 years old. The Accountant of the Ontario Court had not attempted to obtain current information, such as addresses, for many of these clients.

To better deploy its staff resources, the Office needed to establish workload standards and monitor time spent by staff on individual clients and tasks.

Overall Office Response

Office staff and management have worked, and continue to work, to implement vital changes in the organization. We believe that good progress has been made toward our objectives over the past few years. The Office's program for making treatment decisions for incapable people who have no alternative supports, the implementation of a new program to appoint private guardians, our procedures upon receiving initial guardianship appointments, a more aggressive program to search for heirs of estates administered by the Office and the implementation of internal audit functions received positive recognition during the audit.

There are many other achievements that we believe are notable. These include the establishment of much closer linkages with our clients' caregivers, implementation of procedures to ensure clients are aware of their legal rights, enhanced attention to the personal needs of clients, significant improvements in the accuracy and speed of bill paying on behalf of our guardianship clients, and appraisal and inspection of real estate.

Several other important initiatives that will impact directly on the issues identified by the Provincial Auditor—most specifically the issues of timeliness and consistency of follow-up on activities that are initiated by staff—have already been implemented, although too recently to have demonstrated measurable results in time for this audit. Of particular significance is the decision of this government, made pre-audit, to substantially enhance frontline staffing, allocate additional supervisory resources and explore process efficiencies through improved technology. Related improvements to processes for monitoring and prioritizing activities are in progress and are described in greater detail below in the Office's responses to specific recommendations. The Office is committed to staying the course toward its objective of excellent service in all aspects of its operation.

DETAILED AUDIT OBSERVATIONS

SERVICES TO INCAPABLE PERSONS

Most of the Office's more than 12,000 clients are vulnerable adults incapable of making decisions about their financial affairs and/or personal care. These clients have no one willing and able to make decisions for them and guardianship is necessary to protect them from potential harm caused by abuse and/or neglect.

With the exception of about 30 personal care guardianship cases, almost all the 12,000 incapable clients are property guardianship cases requiring the Office to manage their financial affairs. Approximately 55% of these clients reside in nursing homes or other chronic care institutions and the rest are in the community. Guardianship mainly involves ensuring that clients receive all the income and/or benefits they are entitled to, determining clients' spending allowances and expense requirements, and setting up routine payments to meet those requirements.

For about 700 clients with real estate assets, proper guardianship requires additional staff effort. Staff are required to identify and account for all client assets on a timely basis, arrange for routine property maintenance and annual inspections, and dispose of assets when appropriate to maximize value for clients and avoid unnecessary maintenance and other expenses.

EFFECTIVENESS MEASURES

In 1998, the Office developed effectiveness standards for providing services to incapable clients. The standards were based on reasonable criteria by referring to various sources, including the *Substitute Decisions Act*, judges' expectations, court decisions, standards expected of other protective service organizations such as Children's Aid Societies, private-sector trust companies and the Office's past experiences. According to the Office, trust industry standards require an error rate in the financial management of client needs of less than 5%. Management reported serious errors in 33% of the files and a high number of negligence claims.

Management advised us that many of its effectiveness standards were not achievable because of resource constraints. It had therefore established separate performance targets that were less stringent but that it considered more in line with the resources available.

Management further indicated that the performance targets measured mostly timeliness in performing various activities and not the quality of service provided by the Office. In our opinion, timeliness in meeting the needs of clients is an important aspect of the Office's activities and an integral feature of providing quality services. In addition, we noted that the Office had not developed other quality-of-service indicators to measure how well its clients are being served.

As the following sections illustrate, we found that in many cases the Office was not effective in meeting its performance targets in its services to incapable clients.

INTAKE AND GUARDIANSHIP INVESTIGATION

On average, the Office receives about 1,000 inquiries and allegations per year from the public relating to incapable persons requiring its help. However, before the Office can take over

guardianship of an allegedly incapable person, it must establish that the person is indeed incapable. Timely follow-up of allegations, performance of risk investigations and obtaining guardianships are essential to protecting vulnerable persons from potential abuse.

Relatives who are willing and able to make decisions for incapable persons but who do not have the necessary power of attorney must apply to the Office for private guardianship. The Office must then determine whether the applicants are suitable as guardians.

We found that the Office had failed to meet its performance targets for:

- commencing and completing investigations in 15% of cases;
- commencing legal action in 20% of cases; and
- processing statutory guardianship applications in 60% of cases.

Since the 1996 amendments to the *Substitute Decisions Act*, the Office had investigated approximately 200 guardianship applications per year and, in total, obtained personal care guardianship for about 30 cases. We noted lengthy delays in a number of personal care cases where it took from three to nine months to complete investigations; the performance target was 35 days.

In one case where an investigation had concluded that an individual's situation was urgent, application to commence legal action was not made for approximately two and a half months. We found no documentation providing reasons for the delay. The performance target for commencing legal action in such cases is not more than two days.

We found that once investigations were completed, the Office's procedures for receiving documents, setting up files for new clients and obtaining initial guardianships of clients' properties to be generally satisfactory and in compliance with legislative requirements. We also reviewed the system of reviewing private guardianship applications and noted that it was generally satisfactory.

Recommendation

To protect incapable persons from financial loss and/or physical harm or abuse, the Office should conduct investigations of allegations of abuse and, where necessary, commence legal action on a more timely basis.

Office Response

The Office is in the process of making improvements that will enable it to improve its targets for completing guardianship investigations within specified timelines. In 1998, we implemented a practice of weekly status reviews by the Manager of Intake of all cases plus monthly reviews by senior management of any case which staff recommend remain open 45 days or more. At that time, we also implemented a practice of assigning priorities to cases when they are opened to ensure that the most high-risk ones are dealt with first. A weekly printout of a status report on all guardianship investigations is now distributed to the manager and to all the investigators.

Additional frontline investigative staff are in the process of being recruited. Once they are trained, caseloads per investigator can be reduced, allowing files to be processed more quickly.

The Office is making improvements which will enable it to commence the legal work and process statutory guardianship applications on a more timely basis. For example:

- ***The Office started (pre-audit in the spring of 1998) to track legal referrals in Intake and has been following up on the status of work in progress and ensuring that timelines for this function are met. The timelines of legal work improved for the last two quarters of the 1998/99 fiscal year due to the secondment of an additional lawyer to this program area.***
- ***A revised screening manual, with procedural efficiencies and clarifications was in development during 1997/98 and completed in January 1999. As a result of these developments, timelines for processing statutory guardianship applications are improving.***

ONGOING GUARDIANSHIP

Most of the Office's clients are vulnerable individuals who rely solely on the Office for timely monitoring and guardianship of their financial, personal or legal situations. Proper guardianship can help prevent personal injury, health risks, and the financial and personal exploitation of these clients.

The Office has established performance targets relating to: frequency of visits; the timeliness of legal actions; field investigation of property; redirection of income; and securing and disposing of assets. Our audit found that the Office frequently did not meet these targets. For example:

- Performance targets require each new client file to be reviewed within 90 days of being opened to ensure assets were identified, secured and recorded, and legal issues identified. For 40% of cases, actual performances did not meet the targets.
- One performance target requires at least one visit to the client per year. However, the Office indicated that over 75% of the clients had not been visited as required.

We found that not only were clients not visited on a timely basis as required, but that, in some cases, the clients had never been visited at all. In addition, when visits were made, staff often did not document the details of the visits.

We reviewed work performed by the Office's internal audit staff and selected additional files based on various risk factors to assess the adequacy of the Office's procedures in ensuring proper guardianship for incapable clients.

Our audit indicated that adequate procedures were not in place to monitor client situations and, even where significant problems had been identified, to ensure timely corrective action was taken. Below are the significant problems we noted during our audit.

AUTHORITY TO ACT AS GUARDIAN

Prior to becoming the guardian of property on behalf of an incapable person, the Office must obtain legal jurisdiction to manage the individual's finances. The Office can obtain jurisdiction as guardian of a client through:

- a Certificate of Incapacity issued by the doctor of a client residing in a hospital;
- a Notice of Continuance extending the Certificate of Incapacity, also issued by the individual's doctor upon discharge from the hospital;
- a finding of incapacity based on the results of a Capacity Assessment given by a capacity assessor; or
- a court order.

If jurisdiction is not established, or if it lapses and is not properly reinstated, the Office does not have legal authority to act as an incapable person's guardian.

We found that the Office's initial obtaining of guardianship generally complied with legislative requirements. However, due to the lack of timely monitoring of client situations, in a number of cases the Office had continued to act as guardian long after its authority had expired.

Furthermore, when the Office became aware that proper authority was lacking, it often did not take action to rectify the problem. For example:

- At the time of our audit, the Office was still managing a client's finances four and a half years after jurisdiction had been lost, even though two years earlier, its own internal audit staff had identified the absence of jurisdiction.
- The Office was not able to initiate the sale of another client's house for over three and a half years because it did not have proper authority. We found an incomplete court application for appointment of the Office as guardian in the client's file. However, management was not able to tell us when the application had been prepared or whether it had ever been filed in court.
- The Office was aware that it had been acting as guardian of a client without proper authority since August 1996 due to an administrative error. However, it was not until our audit identified and informed the Office of the problem that action was taken to obtain a valid Certificate of Incapacity.

Amendments to the *Substitute Decisions Act* in 1996 alleviated part of the problem relating to acting without authority. When a client is discharged from a hospital with a Notice of Continuance extending the Certificate of Incapacity, the new legislation allows the Office to regard the condition of incapacity as permanent.

However, the majority of clients came under guardianship of the Office before introduction of the new legislation. Obtaining appropriate authority for these clients, such as the ones cited in the examples above, is necessary for the proper discharge of the Office's guardianship responsibilities.

REDIRECTION OF INCOME AND APPLICATION FOR BENEFIT ENTITLEMENTS

An important function of the Office is to identify the income sources and potential benefit entitlements of its clients. Timely redirection of existing income to the Office and application for entitled benefits are essential for meeting the day-to-day financial needs of clients. Late application for benefits, such as insurance or old age security, and spousal and disability pensions could result not only in financial hardship for clients for the period during which they have not received the income, but also in permanent loss of that income because many benefit entitlements have limits on retroactive payments.

Our audit revealed that income redirection and benefit entitlement application on behalf of clients were sometimes missing or were not done on a timely basis. These oversights included benefits under the Canada Pension Plan (CPP), Old Age Security (OAS) and Guaranteed Income Supplements (GIS), foreign pensions, disability insurance benefits and other insurance claims. Frequently, even when management became aware of problems relating to income and benefit entitlements, adequate procedures were not in place to ensure timely corrective action. For example:

- Management was informed in April 1996 that the Office had not applied for CPP survivor's benefit for a client whose husband, a former client, had been receiving CPP before his death in 1992. We noted that an application for the survivor's benefit was only in the process of being completed in December 1998, a week after our request to see the file.
- The Office had been aware since 1995 that another client was entitled to CPP disability benefits. No follow-up action was taken for over one year and an application was submitted to CPP only in December 1997. At the time of our audit, the client was still not receiving the benefits.

Subsequent to our audit, the Office informed us that all retroactive payments were received from CPP in March 1999. However, we noted that due to the delay in submitting the application, the payments were retroactive only to January 1997, even though the client had been entitled to the benefits since 1995.

- OAS and/or GIS are available to seniors if they meet eligibility requirements and file an annual application providing a breakdown of their income. The Office had been informed that GIS payments would start for a low-income client in June 1998. At the time of our audit, the client had not yet received any GIS payments. We found no explanation on file of why the client was not receiving GIS benefits and no indication that the matter had been followed up since July 1998. Subsequent to our audit, the Office informed us that all the GIS payments due to the client were received in May 1999.
- A foreign pension authority informed the Office in October 1997 that benefit payments would be forwarded to the Office. We noted during our audit that the Office was still not receiving any payments. Subsequent to our fieldwork, the Office informed us that it had followed up on the pension arrears and was starting to receive pension payments.
- In another case, the Office had received foreign pension payments totalling \$34,000 since March 1995 but had not credited the client's account until August 1998. In the meantime, the client was receiving income supplements from government social assistance programs for low-income individuals.

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- Another foreign pension authority informed the Office in 1995 that the pension for a client would be forwarded upon receipt of documentation that showed the Office had authority over the administration of the client's assets. However, no follow-up action was taken and the client died in 1997 without receiving any pension payments.
 - The Office was informed in 1997 that a client had a paid-up annuity issued by an insurance company and was entitled to monthly pension annuity payments upon his retirement. Our audit indicated that the Office had not been in receipt of the annuity payments. As a result of our audit, the Office sent out a redirection letter to the insurance company in February 1999.

ACCOUNTING FOR CLIENT ASSETS

The Office has a legal responsibility to safeguard and manage a client's assets from the date that its authority as guardian is established. The Office obtains information about clients' assets through discussions with family members, personal friends and neighbours, caregivers, business associates, lawyers of the clients and the clients themselves. It also obtains such information through reading clients' mail that has been redirected to the Office, bank confirmations and examinations of past income tax returns.

When clients have assets located in the community such as real estate, automobiles, apartment contents, safety deposit boxes, securities and other assets that need to be secured or retrieved, the Office must send field investigators to visit the clients' residences and any other real properties the clients own. There are cases where mandatory field investigations are not required. However, staff are advised that it is usually more effective and efficient to request a field investigation if clients' funds are or eventually will be available to cover the costs of such a visit.

Field investigators are required to prepare an asset survey report listing all the assets and liabilities of clients as determined by the field visits. The investigators are also required to collect any documents (such as bank statements, utility bills and so on) providing additional information on the financial position of the clients and to note any issues for follow-up. Timely field investigation is important to ensure all assets of clients are accounted for, to prevent subsequent misappropriations and to secure valuable assets for proper safeguarding.

We found a number of cases where client assets were not being properly accounted for. For example:

- A field investigator reported the existence of a bank account in an asset survey of a client in 1996. However, at the time of our audit, the Office still had not taken possession of the account from the bank. As a result of our audit, the Office requested transfer of the account and received \$49,000 from the bank in February 1999.
- For two cases we reviewed, field investigations were not performed even though the clients had significant assets located in the community.

In one case where a field investigation was not performed, two years elapsed before the Office became aware that a relative had misappropriated over \$100,000.

In the other case, no field investigation was requested for a client with cash assets of over \$300,000 and who, at the time of our audit, had never been visited as required by policy. According to the external capacity assessor's report, the client had a metal box which contained a number of his financial documents, such as income tax documents, and current and former bank passbooks. The report indicated that the client "apparently had a will in a safety deposit box but the whereabouts of the box is unknown."

The Office was able to request the transfer of over \$300,000 from just one bank for this client with a number of bank accounts. However, it had not requested a field investigator to review the financial documents in the metal box and prepare an asset survey report listing the belongings of the client that were reported to be in the garage of the retirement home he moved to.

- The request for a field investigation was eight months late for one client. Three years later, after the client had died, a relative informed the Office that she had taken possession of the client's assets before the investigation was done and that she had collected an additional \$21,000 in bonds and stale-dated cheques.
- The Office was reminded by internal audit staff in 1996 to confirm with a law firm regarding a prepaid funeral that cost \$3,380 and a cemetery plot that had been purchased for a client. Our review of the client's file in December 1998 indicated that the client died in September 1998. The Office subsequently paid at least \$8,000 for funeral-related expenses from the client's account. There was no information on file to indicate that the Office had followed up on either the prepaid funeral or the purchased cemetery plot.

DISPOSING OF CLIENT ASSETS

As part of its responsibility for managing client finances, the Office often disposes of client assets, primarily cars and real property, if the client is unlikely to use the assets again. For example, a car will be sold if it is determined that a client will never drive again, and a house will be sold if a client is to remain permanently in a nursing home. The prompt sale of assets in these circumstances is to ensure the client receives the maximum value for them and to avoid unnecessary expenses.

Unoccupied houses are exposed to break-ins, vandalism and deterioration and are expensive to maintain given the costs of property taxes, utilities, insurance premiums and other maintenance expenses. Depending on the financial situation of a client, the Office also disposes of other assets such as securities and chattels if funds are needed to support the client's daily needs.

Our review indicated that assets were often not promptly disposed of even when it was apparent that the clients would have no further use for them or that funds were needed to meet the clients' financial requirements. For example:

- In 1996, management was informed by internal audit that the net income from a rental property was insufficient to support the client's needs and that the property should be sold. The property was not well maintained and, by early 1999, had lost its last tenant. Our audit indicated that the Office had not been making property tax payments, which resulted in tax arrears and significant interest charges for the client. At the completion of our fieldwork, the property had still not been placed on the market for sale.

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- The Office had failed to sell the house of another client who had been confined to a nursing home since 1994 despite repeated requests for sale of the property from the client's out-of-town children. When the client's daughter complained in 1996 about the house not yet having been sold, the Office's management assured her that the matter would "be given immediate attention." At the time of our audit in early 1999, we noted that the house had still not been placed on the market. The cost of maintaining the house since 1994 was over \$23,000, which included the cost of repairing damage caused by a break-in to the unoccupied house.

Upon receiving a listing of the above client's assets in May 1995, the client's daughter wrote to the Office expressing agreement to selling the client's assets in a public auction. However, the contents of the client's house were not sold, and her car was sold only in April 1997.

In 1994, the field investigator had recommended that the car, which was in fair condition with low mileage, should be towed to a storage area as it was parked in the client's driveway and was "easy prey for vandals." This was not done. We noted that the car had accumulated 18,000 additional kilometres by the time of sale, despite the fact that no one had been authorized to drive it. By the time the car was sold in 1997, it had lost an additional \$2,000 from its 1994 value.

Management informed us that, since May 1998, it has produced a list with information about real estate owned by its clients, including whether unoccupied houses have been listed for sale. We noted that the list did provide management with more information for serving its clients and monitoring the work of its staff. However, as can be seen from the above cases, the reason for properties not being properly disposed of was the failure to take timely action rather than a lack of information.

Recommendations

To protect vulnerable clients from financial and personal exploitation and to minimize liability to the province, the Office should closely monitor the ongoing guardianships of its existing clients through timely field investigations and visits. In addition, it should ensure that:

- **the Office acts with proper jurisdiction as guardian in all cases;**
- **income redirections and benefit entitlement applications on behalf of clients are completed on a timely basis to prevent loss of income to clients;**
- **assets of clients are identified, accounted for and secured to prevent misappropriations; and**
- **unused assets of clients, such as unoccupied houses and vehicles, are promptly sold so that clients receive maximum value for them and avoid unnecessary expenses.**

The Office should establish adequate procedures to ensure that prompt corrective action is taken when problems are identified.

Office Response

There is an increase of approximately 35% in frontline guardianship workers being implemented. This was planned prior to the audit. It will allow the Office to be faster in attending to all of the issues identified in these recommendations. It will have an positive impact on the rate of completion and of many important activities including client visits, file reviews, initial identification and securing of assets, applications for benefits and disposal of unneeded assets.

With respect to the specific audit findings, the following are some of the initiatives taken by the Office:

- *Client visits: Restructuring, planned pre-audit, for this fiscal year will reallocate client files so that staff are assigned to specific institutions. This will allow more economical use of time by permitting staff to visit many clients in one attendance. System enhancements are being implemented which will enable reporting of visits by all team members and which will capture multiple visits.*
- *Jurisdiction: It is important to note that in no case identified as lacking in jurisdiction did the Office assume authority over a person who was actually mentally capable. All cases cited in the report have been rectified, and the Office's internal auditor continues to search out any other lapses.*
- *Redirecting income and benefit entitlements: We have implemented reports that generate notification to staff and their managers, of clients who are becoming/have become eligible for statutory pensions so that these will not be delayed and so that managers can follow up to ensure these are done. A dedicated TAMS (computer system) screen was finalized in May, 1999. This alerts client representatives to potential extended health care benefits and reports to management on these cases.*
- *Identifying and securing clients' assets: A new automated system for logging and tracking requests, reports and field investigations is being implemented. An expanded "new file review" process is also being implemented in conjunction with the new staffing structure which will act as a check on this function.*
- *Disposition of unneeded assets: Since May 1998 managers have been receiving a report showing all real properties that may meet the criteria for listing. These are checked with staff for action if applicable. Repeat reports of the same property are now tracked and used as a performance indicator for staff and managers. The process is too new to have shown any results in the 1994-1998 audit period*

In addition, the Office is increasing its supervisory staff to enable closer analysis and follow-up on the monitoring and tracking of the report concerning these issues and staff prioritization of these and other important tasks. Internal audit capacity is being doubled and a new Quality Assurance Unit is also being established to expand the ability to audit, monitor and track asset identification, collection and disposition.

TERMINATION OF GUARDIANSHIP

The Office's authority as guardian for incapable persons is terminated upon the death of the client, by the client regaining capability, or by loss of continuing jurisdiction to manage the client's affairs. When jurisdiction ceases, the Office is required to close the files and transfer the assets to the client's estate, to the client if the client has been found capable, or to a private guardian. The Office's policy requires that close-out procedures be commenced in a timely and efficient manner.

In early 1999, there were over 1,000 former client files waiting to be closed. Our review revealed that over 500 of those files were transferred for close-out prior to January 1998. Of those, over 200 were transferred before July 1995 and for more than two thirds of these files, the Office could not provide us with a summary of the actions taken or reasons for the significant delays. The Office indicated to us that the information was available in the individual files but had not yet been reviewed. However, we noted that some of the files were missing and could not be located.

When heirs of deceased former clients were identified, we found that reporting to heirs was late, sometimes by as much as seven months compared to the Office's staff performance target of eight weeks. Some of these files were misplaced and the staff responsible were uncertain when they had received them.

Recommendation

To properly discharge its fiduciary duty to former clients and their beneficiaries, the Office should ensure timely closure of files and transfer of assets.

Office Response

The Office has taken steps in the past year and a half to improve on the timeliness of closing files and transferring of assets. In late 1997, the Office instituted a new staffing structure and monitoring process which is steadily improving this aspect of the Office's operation.

The current structure is working well with all new files meeting the performance standards. The database is containing more complete information as to the true status of the older files. As part of the office staff's ongoing file review, regular reminder letters are being sent to families when no response has been received from them.

TREATMENT DECISIONS

As a result of legislative amendments in 1995 and 1996, the Office became the treatment decision-maker of last resort for incapable adults, primarily under the authority of the *Health Care Consent Act*. In circumstances where a relative, or other legally designated treatment decision-maker willing and able to make a decision for specific treatments on behalf of an incapable individual, cannot be located, health practitioners are required to obtain the consent of

the Office. Treatment decisions include decisions about surgery, medication, admission to a long-term care facility and, less commonly, end-of-life ventilator decisions.

After obtaining all information necessary to make an informed decision, the Office's treatment decision consultant sends a letter of consent to the health practitioner who recommended the treatment. The treatment decision area is largely independent of other activities within the Office. Treatment decisions are made for existing clients and for other incapable persons who have no other relationship with the Office. Approximately 3,000 decisions were made in the 1997/98 fiscal year, often with multiple treatment decisions being made for the same client.

We concluded that the Office generally had adequate policies and procedures in place to ensure treatment decisions were appropriate and supported by the information obtained.

3.02

ESTATE ADMINISTRATION

The Office is responsible for administering the estates of individuals who die in Ontario without a will or known next-of-kin, providing the estate has a value of at least \$5,000.

For the estates it is administering, the Office conducts investigations for wills, applies to court for the estate administration, identifies and locates heirs up to second cousins where possible, and distributes assets to beneficiaries. For its efforts, the Office is compensated based on a percentage of the assets as allowed by provincial law for trust administration. Under the *Escheats Act*, if heirs cannot be located, the assets of an estate become payable to the province ten years after the date of death.

As of December 1998, the Office had about 2,100 outstanding estate files with assets valued at about \$90 million under its administration as follows:

Estates under Administration

	Number	Value
Files opened prior to 1989 (payable to the province)	500	\$16 million
Files opened from 1989 to 1995	1,100	\$38 million
Files opened from 1996	500	\$36 million
Total	2,100	\$90 million

Source: Office of the Public Guardian and Trustee

EFFECTIVENESS MEASURES

The Office has developed effectiveness service standards for will investigations, court applications, searches for heirs, and asset distributions to beneficiaries. However, management indicated that staff performances were assessed based on less stringent targets due to resource constraints. Except for will investigations, the Office's performance reports indicated that the Office was not meeting its performance targets.

For example, effectiveness standards required initiating court applications for administration within 60 days of the receipt of files, and staff performance targets required applications to be initiated within four months. However, in about half of the cases in 1998, the Office did not initiate court applications even within the four-month staff performance target. Also, while

service standards allowed six months to two years for distributing assets to beneficiaries, the Office reported asset distribution took from two to six years between 1994 and 1998.

LOCATING HEIRS

Since 1996, the Office has contracted with outside firms to locate heirs who could not be located by office staff through reviews of documents and investigations. Unlike other outside heir tracers, which usually demand from 30% to 50% of the estate from the heirs they locate, the contract tracers were paid by hour. Over the last three years, the contract tracers have been successful in locating heirs for over 65% of their cases.

The Office indicated that because of resource limitations, its efforts in searching for heirs focused on files set up from 1996 onward. We noted that few searches for heirs were conducted for files set up prior to 1996, although those files represented over 75% of the total number of estates currently under administration.

The improvement in searches for heirs of estates for files opened since 1996 was commendable. However, the lack of timely searches for the heirs of estates for files opened prior to 1996 resulted in unnecessary compensation fees paid to the Office.

For the 500 estates older than 10 years with a value of \$16 million about to be paid to the province, the Office had selected 12 files for searches to be conducted by the contract tracers. As a result of those searches, heirs were located for five of the estates with a total value of \$235,000. In view of those successful efforts, we believe searches for heirs of estates with more recent files might be even more successful given that information on these estates and their beneficiaries is more likely to be readily available and less likely to have been lost than for older cases.

Recommendation

To ensure better success in locating heirs, the Office should conduct timely searches for heirs for estates that came under the Office's administration prior to 1996.

Office Response

In 1996, the Office undertook a very aggressive program to locate heirs for estates coming under its jurisdiction. The program has offered very good results. The Provincial Auditor recommends that it be extended to pre-1996 estate files. Given their age, these files have a lesser chance of an heir search being successful. That is why resources have been focused on the newer files. However, we will be undertaking a special project to determine how we can improve on our ability to conduct heir searches for the pre-1996 files before the estate becomes payable to the province under the Escheats Act. It is important to note, however, that even when such a payment occurs, the right to the inheritance is not lost, and any heir that is subsequently located is still entitled to claim his or her share of the estate from the province.

DISTRIBUTION OF ASSETS

At the time of our audit, over one third of the files ready for distribution of assets to beneficiaries had delays of more than two years. We reviewed a sample of files where there had been excessive delays in distributing client assets of over five years and noted that:

- Thirty-four percent of the files showed that additional assets had been deposited in the client accounts between 6 and 13 years ago. However, the estate officers responsible for the files were not informed of the deposits, and thus were not aware of assets to be distributed. At the time of our audit, eight files were still not distributed. Staff had knowledge of three of the files, but were not aware of the situations in the other five until we brought the cases to their attention.
- Twelve percent of the files showed delays in distribution of up to eight years mainly due to a lack of staff continuity. Half of these estates were still not distributed, as staff were unaware of their status until we informed them.
- For 9% of the files, assets had been distributed but the files had not been closed to indicate that distributions had occurred.
- There were various reasons for the delays for the remaining files including outstanding tax matters, excessive interest credited to client accounts and transfers to third parties.

We were concerned that assets had not been distributed to beneficiaries on a timely basis. These delays had resulted in unnecessary compensation charges imposed by the Office. In one instance, an estate with a value of about \$3 million, which had been ready for distribution in 1994, was distributed two years later resulting in unnecessary compensation charges to the estate.

Recommendation

To avoid unnecessary compensation charges to estates, the Office should establish adequate procedures for ensuring that assets of estates are distributed to beneficiaries on a timely basis.

Office Response

In 1998, a new process to track and report to management on estates for which administration is complete was introduced. This process is too new to have demonstrated measurable results during the audit period. The staff will be able to process distribution more quickly once the additional staff, currently under recruitment, are in place. We are going to retain temporary help to clear the backlog of older files referred to in the report. It is also important to note that the Office's policy is to forego collection of compensation in the event of undue delay and this issue will be addressed during the backlog cleanup.

ACCOUNTANT OF THE ONTARIO COURT

The Accountant of the Ontario Court is the depository for all monies, mortgages and securities paid into, or lodged with, the court. The Accountant of the Ontario Court does not act as a guardian, but rather as a custodian and invests funds for clients. These monies, mortgages and securities are received and released pursuant to judgments and orders of the court, and in accordance with the *Courts of Justice Act* and other relevant statutes. Where monies are paid into court to the credit of minors, the Accountant of the Ontario Court is to administer the funds until the children reach the age of majority. Most client accounts are for either minors or litigants awaiting settlement.

The Accountant of the Ontario Court was consolidated with the Office of the Public Guardian and Trustee in November 1997 as a result of legislative amendments. As of October 1998, it had approximately \$475 million of assets under its administration. Of this amount, \$109 million was from approximately 17,000 litigant accounts and \$366 million was from about 47,000 minor accounts.

DISTRIBUTION OF ASSETS

We noted that the process for timely distribution of assets to litigants was generally satisfactory. However, we noted that a significant number of assets intended for the benefit of children were not distributed even years after the individuals had reached the age of majority. Our review indicated that over 1,300 accounts for minor children, with a value of over \$13 million, belonged to clients who were at least 25 years old.

The Office indicated that it did not have a legal obligation to locate account holders and notify them of their assets. It assumed that account holders were informed because the Office issued them legal notification of interest earned (T3 slips) every year.

We selected a sample of accounts of clients who were over 25 years of age and had cash balances of over \$20,000 each for further review. We noted that the Office did not have a current address for 60% of these clients. For half of that 60%, the Office had not tracked the last time a T3 slip was returned due to a non-current address. In the cases where the dates of undelivered T3 slips were known, we noted that the Office had not communicated with the clients for three to six years.

We performed an additional follow-up review of 10 accounts of minors with cash balances of over \$50,000. This review indicated that two of the clients were aware of their entitlements. Another two may not have been aware of the existence of their accounts, although there was evidence that relatives had enquired about them. For the remaining clients:

- One had become a client of the Office at age three and had \$65,000 in the court. He would now be 45 years old. We found no correspondence on file with him over that period.
- Another client had requested information about his entitlement and about procedures for withdrawing the funds in 1987. A cheque was issued to him, but was forwarded to a wrong address and returned undelivered. The Office had not followed up with the client, who had over \$150,000 in the court at the time of our audit. His request letter, which had his address on it, was destroyed as per the Office's file retention schedule.

- Another client with almost \$400,000 had on file only a letter returned from the post office in 1988 due to address unknown. Three other clients with a total of \$280,000 in their accounts had no documents on file other than those indicating payments to the Court.

Since the Office did not inform beneficiaries of the existence of their entitlements, the balances of their funds or the procedures for withdrawing funds, these minor account holders might never know of the funds paid into court for them when they were infants. Sending T3 tax slips as a formal notification of entitlements is inadequate because even in cases where T3 slips were not returned, it could not be known whether the beneficiaries had actually received them. Furthermore, in most cases, the Office did not have forwarding addresses.

Recommendation

To assist beneficiaries who may not be aware of funds deposited in court on their behalf, the Office should establish better procedures for informing these beneficiaries of their entitlements.

Office Response

The Office is taking steps to establish a new process that will address the concerns around informing minors of their entitlements.

Under a new process that has been established with the Office of the Children's Lawyer (OCL), the Accountant of the Ontario Court will forward a list to the OCL six months in advance of a minor turning 18 years of age (or other date when the minor will be entitled to his or her trust funds). The OCL will send a letter to the minor explaining the existence of and reason for funds in court, terms of order/judgment, entitlement, and procedure to obtain funds.

Many of these accounts should not be paid out as they are subject to further court orders or instructions from the OCL. The Office will consider further classification codes that will assist in identifying such clients in the system more readily.

For those minors now past the age of 18 years, a special project will identify those clients where there has been no contact and commence a search in order to inform or remind the client of the existence of funds.

STAFFING RESOURCES AND WORKLOAD

As at March 31, 1999, salaries and benefits for the Office's 250 staff accounted for \$19 million or over 80% of total Office expenditures. The following table provides a breakdown of staff assigned to the various programs.

Number of Staff by Program at March 31, 1999

Program	No. Staff
Service to incapable persons - guardianship	150
Service to incapable persons - treatment decisions	17
Estate administration and dissolved corporations	12
Accountant of the Ontario Court	8
Charitable property	7
Administrative and other supports	56
Total	250

Source: Office of the Public Guardian and Trustee

As the above table indicates, staff were mostly devoted to providing property guardianship to incapable clients due to the amount of time required for attending to these cases.

The Office has established a service standard of 12 hours of service per year for each incapable client based on criteria such as the Office's past experiences, other jurisdictions and trust industry standards with adjustment for social services provided to clients. Based on this service standard, the Office determined that, to be effective in serving its clients, each staff member should have a caseload of not more than 150 incapable clients.

With 150 staff assigned to providing guardianship for 12,000 incapable persons, the staff-to-client ratio was 1:80. However, according to management, of these 150 staff, only 86 were specifically assigned to directly handle guardianship cases. The other 64 were mainly providing legal, investigative, intake and other support services. When only the 86 staff were taken into account, the staff-to-client ratio became 1:140, indicating a caseload of slightly less than the 1:150 service standard.

However, our review of staffing revealed the following:

- Of the 86 staff assigned to the guardianship of incapable clients, only 43 client representatives were counted by the Office in the staff-to-client caseload ratio. The other 43 employees, mainly assistants to client representatives, were excluded by management in measuring the staff-to-client ratio.
- In addition to not including assistants to client representatives in the staff-to-client ratio, the caseload standard did not take into account the amount of work imposed on staff by the nature and complexity of different tasks. For example, a staff member visiting a client in a remote part of the province might have to spend more time travelling than another staff member visiting 20 clients in a local nursing home. Also, clients with significant assets, such as rental properties, generally require more time and attention from staff than those with minimal assets. Establishing staffing requirements solely based on caseload could lead to uneconomical decisions in the deployment of staff.
- The Office did not record the time spent by its staff either on attending to individual clients or for specific tasks performed. Without such information, the Office could not adequately assess what constituted reasonable time in serving certain types of clients or in performing certain tasks. Consequently, reasonable standards to assess efficiency of staff performance could not be established.

Recommendation

To achieve better economy and efficiency for its staff resources, the Office should:

- assign clients to staff based on work requirements, giving proper consideration to complexity and other factors affecting the job; and
- establish workload standards and monitor time spent by staff on individual clients and tasks.

Office Response

A new staffing ratio is being adopted. This is based on consultations with other jurisdictions and related services and on our experience with the time and expertise requirements for various tasks and services.

The Office has obtained approved funding of 36 additional frontline positions for restructuring its guardianship services department to significantly increase supervision and management of cases to provide services to incapable people. This funding provides the opportunity for management to implement its restructuring initiative which introduces team leader positions as the technical experts to provide day-to-day technical advice and 19 new junior client representative positions to handle "high volume/low risk/low complexity" clients.

Staff will be assigned clients based on work requirements. Caseloads will be divided to reassign those that are complex because they involve real estate, legal problems, high assets values, or individual clients who reside independently in the community. These caseloads will be much smaller and will be served by senior staff. Clients with simple finances and who reside in protected settings will be grouped into larger caseloads and will be assigned to junior client representatives, as they are less time consuming and complicated.

Workload standards and procedures to monitor, more closely, time spent on individual clients and tasks will be implemented by the new supervisory resources, the team leaders.

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

Child Care Activity

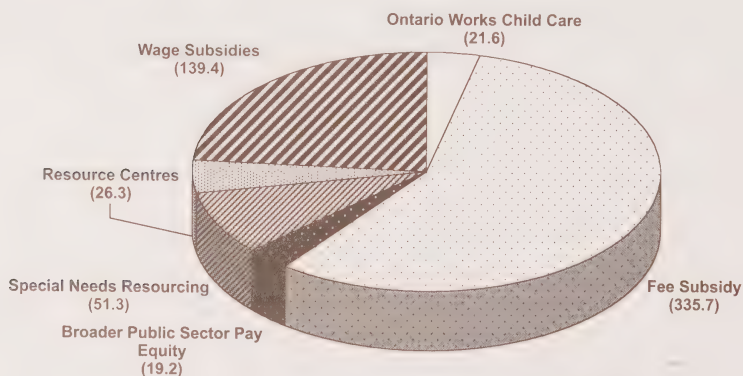
The Ministry's Child Care Activity develops policies for licensed child-care programs and subsidizes the cost of a portion of those programs to enhance the availability of affordable, high-quality care for children up to the age of twelve years. This care is, in turn, intended to allow parents to work or undertake training or education leading to employment. However, access to subsidized child care is not an entitlement and is therefore limited by the availability of subsidized child-care spaces, which is determined by ministry funding and the financial contributions of municipalities and approved corporations.

The main objectives of the Child Care Activity are:

- to subsidize child-care costs for children of parents in need either directly, through fee subsidies to child-care programs, or indirectly, through wage subsidies intended to enhance caregiver wages and benefits;
- to provide additional financial support for the care of children with special needs;
- to provide funding for community-based resource centres that provide such things as parent education, drop-in and playground programs, and toy and equipment lending libraries; and
- to license and monitor child-care operators to promote quality child-care services and ensure the health and safety of the children in care.

For 1998/99, ministry child-care expenditures totalled \$593 million as follows:

Child Care Activity 1998/99 (\$ Millions)



Source: Ministry of Community and Social Services

During the 1998/99 fiscal year, the Ministry contracted with 186 municipalities and ministry-approved non-profit corporations to provide local fee subsidy management services on its behalf. These fee subsidy managers either provided subsidized child-care services directly or purchased such services from third-party providers. In total, subsidized child care was provided by 3,400 licensed child-care centres and 140 licensed private home-care agencies for approximately 133,000 and 8,500 children respectively.

Up to December 1997, the cost of the fee subsidy program was shared between the Ministry and its fee subsidy managers on an 80:20 basis, while the costs of the other program components were paid for entirely by the Ministry.

In May 1997, the government announced Local Services Realignment reforms intended to provide a more accountable and less costly child-care delivery system. The reforms included making municipal service delivery agents responsible for 20% of the total cost of the Child Care Activity beginning in January 1998.

The reforms also included consolidating the 186 fee subsidy managers to 47 municipal service delivery agents to streamline program delivery. The transition from fee subsidy managers to municipal service delivery agents had not taken place during the time of our audit. The Ministry intended to implement this change by the end of 1999.

The Ministry currently retains responsibility for inspecting and licensing child-care centres.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's policies and procedures were adequate to ensure that:

- transfer payments to fee subsidy managers and child-care providers were reasonable and adequately controlled; and
- legislative requirements and ministry program policies and procedures were being complied with.

The first objective above focused on ministry expenditures and services provided under the fee and wage subsidy programs because together they accounted for 83% of total program expenditures.

The scope of our audit included a review and analysis of relevant ministry files and administrative procedures as well as interviews with appropriate staff at the Ministry's head office and three area offices. We also visited a number of fee subsidy managers to review their procedures and samples of their fee subsidy needs test files.

Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objectives. These were reviewed and agreed to by senior ministry management.

We conducted our audit during the period from October 1998 to February 1999 with emphasis on expenditures during the 1997/98 fiscal year. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and

accordingly included such tests and other procedures as we considered necessary in the circumstances.

We reviewed a 1996 report by the Ministry's Comprehensive Audit and Investigation Branch on the Wage Subsidy Program that corroborated many of our findings regarding that program.

OVERALL AUDIT CONCLUSIONS

A number of the audit observations and recommendations in this report are similar to audit observations and recommendations made in our reports on the Child Care Activity in 1989 and 1995. In 1995, the Ministry had agreed to take action to implement our recommendations to correct observed deficiencies, but did not follow through with some of its stated intentions. Consequently, although the Child Care Activity has generally met its legislative requirements, we have again concluded that the Ministry's administrative policies and procedures did not ensure that transfer payments were reasonable and adequately controlled. More specifically, the Ministry needed:

- to ensure that child-care fee and wage subsidy funding decisions reflect changes in local needs over time and are reasonable based on an appropriate assessment of sufficiently detailed financial and operational information;
- to ensure that significant variances between expected and actual services provided and costs incurred are identified, assessed and, where necessary, followed up on a timely basis;
- to obtain additional assurance that all reported ministry-funded surpluses are appropriately determined and recovered;
- to periodically review the eligibility criteria used by fee subsidy managers to ensure that all applicants for child-care fee subsidies are appropriately and consistently needs tested so that only eligible families receive subsidized child care; and
- to periodically review a sample of needs test files maintained by fee subsidy managers and related procedures to ensure compliance with established eligibility requirements.

We also concluded that, to ensure the Child Care Activity's compliance with legislative requirements and the Ministry's own policies and procedures, the Ministry needed to:

- to conduct and adequately document licensing inspections on a more timely basis; and
- to ensure that all serious occurrences and complaints reported to the Ministry are adequately followed up and documented.

DETAILED AUDIT OBSERVATIONS

CHILD-CARE FEE SUBSIDY PROGRAM

FEE SUBSIDY BUDGET REQUESTS

The Ministry enters into an annual funding agreement with each of its 186 local child-care fee subsidy managers for the administration and delivery of the child-care fee subsidy program. These annual agreements are based on a budget submission package which must be returned to the Ministry within two months of being sent out, which, in some cases, was as late as August of the year to which the package pertained. Area office staff are expected to review the budget requests taking into consideration caseloads, previous years' expenditure surpluses or deficits, and any other relevant, available information. Final budget approvals should be communicated to fee subsidy managers as soon as possible to allow them to make any necessary expenditure adjustments.

We found that the budget request and approval process was not timely. In addition, we found no evidence that the amounts approved were based on assessed needs or reflected previous years' funding surpluses or deficits, as the following examples illustrate:

- Annual budget requests from fee subsidy managers were often not reviewed and approved until near, and in some cases, after the managers' fiscal year-ends.
- Budget requests lacked sufficient information to permit ministry staff to make informed funding decisions. For example, requests generally provided information on the total number of children to be served but did not provide information about the age groups of the children, which would have a significant impact on costs.

We found that child-care costs for children of the same age showed significant differences. For example, for one area office, the daily cost of caring for toddlers ranged from \$24 per day to \$34 per day, a difference of 42%.

- We found no evidence on file to indicate how, or whether, the Ministry determined the reasonableness of the amounts of funding approved. Instead, we found that it approved funding in amounts similar to the amounts approved in the previous year without assessing either need or prior funding surpluses or deficits. For example:
 - A fee subsidy manager with an annual budget of approximately \$670,000 for directly operated child-care services had funding surpluses of \$297,000 and \$150,000 in the previous two years. Nevertheless, its budget was increased by \$95,000 for the 1997/98 fiscal year.
 - Since the 1992/93 fiscal year, the Ministry had annually provided approximately \$73,000 for a pilot project to provide flexible hours of child care to hospital staff. The child-care centre did not have any parents eligible for fee subsidies, and as such, it was not in compliance with the objective of this program.

Recommendation

To help ensure that each fee subsidy manager receives reasonable and appropriate funding, the Ministry should:

- review and approve budget requests on a more timely basis;
- require fee subsidy managers to report information that is sufficient to permit informed funding decisions; and
- critically assess budget requests to ensure that approved funding amounts are commensurate with the demand for and value of the underlying services to be provided.

Ministry Response

The Ministry works within the government business cycle and will administer budget approvals within that cycle. However, the Ministry is developing a framework for service planning and funding allocations to be implemented in the 2000/01 fiscal year. When implemented, the framework will ensure that funding reflects the relative demand for and value of service across the province.

QUARTERLY REPORTING

Fee subsidy managers are required to submit quarterly year-to-date reports of budgeted versus actual expenditures and service data such as the number of families and children served. The first three quarterly reports are due 30 days after the end of their quarters and the fourth-quarter report is due 45 days after year-end. As part of the quarterly reporting process, the Ministry requires fee subsidy managers to highlight, fully explain and describe an appropriate course of action for all budget-to-actual variances greater than 10% or \$10,000 for financial data.

However, for approximately one third of the files we reviewed with variances greater than 10% or \$10,000, either no explanations of the variances were on file or the explanations on file were inadequate. In most cases, there was no evidence of ministry review and follow-up. For example:

- One quarterly report indicated an over-expenditure of \$124,000, or 42% of the fee subsidy manager's total budget, but included no explanation or evidence of review and approval by the Ministry.
- Another quarterly report indicated that the number of children served was 20% less than planned while total expenditures were only 3% below budget, again with no explanation.

In neither case was there any evidence of follow-up by ministry staff.

Recommendation

In order to ensure the timely identification and follow-up of significant in-year variances in expenditures and service delivery, as required by ministry policy, the Ministry should:

- obtain adequate explanations of such variances; and
- review and approve any necessary corrective action.

Ministry Response

The Ministry developed a Business Practices Guideline in 1999 for implementation in 2000. The guideline provides direction to fee subsidy managers on the timely identification and follow-up of significant in-year variances in expenditures and service delivery, including full reporting of variances. The Ministry will monitor service targets and expenditures through the service contract process and take corrective action as necessary. The variance analysis will be taken into consideration when funding decisions are made.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

In general, recipients of ministry transfer payments in amounts over \$75,000 must prepare and submit an Annual Program Expenditure Reconciliation (APER) together with an audited financial statement no later than four months after the fiscal year-end. The APER is to reconcile a recipient's approved budget with actual expenditures in order to identify ministry-funded program surpluses or deficits. Recovery of identified surplus ministry funding must be under way no later than 12 months after the fiscal year-end in which it arose and must be completed within 24 months.

We found that, where required, APERs were generally received and reviewed on a timely basis. However, in our view, the effectiveness of the process was limited for the following reasons:

- Although municipal fee subsidy managers received over 85% of the total child-care funding, they were exempted from the APER process. As a result, there was no independent assurance that the funds they received were spent as intended by the Ministry.
- For approximately one half of the APERs we reviewed, the accompanying audited financial statements lacked either sufficient detail or the note disclosure necessary to identify inappropriate or ineligible expenditures and to permit the reconciliation of the audited financial statements with the APER-reported actual expenditures.

Recommendation

To improve the effectiveness of the Annual Program Expenditure Reconciliation (APER) process in identifying funding surpluses and inappropriate or ineligible expenditures, the Ministry should:

- obtain independent assurance for all fee subsidy managers' expenditures either through the APER process or through some other form of independent assurance; and
- ensure that the financial statements accompanying APERS are sufficiently detailed or have the required note disclosure to permit the detection of inappropriate or ineligible expenditures as well as the reconciliation of the financial statement with any APER-reported funding surpluses or deficits.

Ministry Response

In order to improve the effectiveness of the Annual Program Expenditure Reconciliation process, the Ministry implemented a new financial policy in 1998 that requires all fee subsidy managers to complete an Annual Program Expenditure Reconciliation. The first reports were due to the Ministry in April 1999. The Ministry has communicated this requirement in its Business Practices Guideline.

FEE SUBSIDY ELIGIBILITY

The Ministry provides subsidized child care only for children whose parents are in need, children who are developmentally or physically disabled and children in First Nations-operated child-care services. A parent in need is defined as:

- a person eligible for income support under the *Ontario Disability Support Program*, the *Family Benefits Act* or the *Ontario Works Act*; or
- a person who for reasons of financial hardship, inability to obtain regular employment, or lack of a principal family provider, illness, disability or old age, does not have the financial resources to provide child-care services or private-home child care to the person's child or children, as determined in accordance with ministry guidelines.

Eligibility for child-care fee subsidies is determined by the local fee subsidy manager based on ministry guidelines. Once eligibility for fee subsidy has been established, parents may choose to place their child in any child-care centre with an available subsidized space in their area.

NEEDS TEST ASSESSMENT

Eligibility for subsidized child care is dependent on an applicant's family composition, monthly income, budgetary needs and liquid assets, based on the Ministry's *Guidelines for the Determination of Available Income*.

These guidelines allow a degree of discretion to reflect local conditions. However, in our 1989 and 1995 audit reports on this Activity, we reported a number of inconsistencies which

resulted from the exercise of this discretion and which, in our view, were not affected by local conditions. The Ministry generally agreed with our findings and resultant recommendations, and, in 1995, stated that it was pursuing a way of assessing financial eligibility for fee subsidies that would result in greater consistency in the determination of eligibility across the province.

Notwithstanding the Ministry's earlier stated intentions, many of the previously noted inconsistencies remained, as shown by the following examples:

- Significant differences not affected by local conditions still exist in the discretionary allowable expense deduction limits used to determine available income. For example, for the fee subsidy managers we visited:
 - maximum monthly deductions for laundry expenses ranged from \$25 to \$65;
 - maximum monthly deductions for debt repayment ranged from \$100 to \$500;
 - additional miscellaneous deductions from net income ranged from 10% to 25%, in some cases without maximum dollar limits; and
 - in some cases, RRSPs valued at up to \$25,000 were not considered liquid assets while in other cases all RRSPs were considered liquid assets.
- Practices varied with respect to determining eligibility for child-care fee subsidies for parents with special needs children. For example, we found that within the same area office's jurisdiction, parents of special needs children applying for a child-care subsidy to a municipal fee subsidy manager were not required to be needs tested while the same parents applying to an approved corporate fee subsidy manager were required to be tested.

We noted that the Ministry did not regularly obtain and review the eligibility criteria used by the various local fee subsidy managers and, therefore, could not even be aware of some of these differences.

We also noted that some fee subsidy managers allowed individual child-care centres to charge a discretionary "top-up fee" in addition to the needs test-determined fee that parents must pay. As a result, some child-care centres charged top-up fees while others did not. In addition to the obvious inconsistency, the potential exists that some parents in need could lose access to a subsidized child-care space simply because they could not afford to pay the top-up fee.

Recommendation

To promote greater consistency in the application of needs tests and to help ensure equitable access to subsidized child care, the Ministry should periodically obtain and review the eligibility assessment criteria used by all fee subsidy managers and ensure that any variances are reasonable and clearly attributable to local conditions.

Ministry Response

The Ministry has recently updated its Fee Subsidy Guidelines and has provided training to fee subsidy managers to ensure greater consistency with ministry policy. The cross-provincial use of an Ontario Child Care Technology System and the reduction in the number of fee subsidy managers from almost 200 to 47 (as a result of Local Services Realignment) will also promote more consistency. The Ministry will direct its staff to periodically review the eligibility assessment criteria used by fee subsidy managers to ensure that ministry guidelines are being followed.

REVIEW OF NEEDS TEST FILES

In our 1989 audit of this Activity, we found that needs test files were not systematically checked for completeness and accuracy by the Ministry. As a result, we recommended that the Ministry conduct periodic reviews of needs test files to ensure that the criteria and intent of needs testing were being observed. The Ministry agreed with our recommendation and in 1990 introduced a requirement that each area office review a sample of needs test files for 20% of their fee subsidy managers each year.

In our 1995 audit, we found that this requirement was not adhered to and again recommended that the Ministry conduct timely and effective needs test file reviews based on risk assessments.

During our current audit, we were informed that the requirement for area offices to annually review needs test files for 20% of their subsidy managers was rescinded by the Ministry during the 1995/96 fiscal year and that the requirement to review needs test files was to be added to the area managers' performance contracts. However, we found that this requirement had not been implemented. Consequently, at the time of our audit, there was no requirement in place to review fee subsidy managers' needs test files or procedures. Although one of the area offices we visited was continuing to conduct needs test file reviews, the two other offices we visited were not doing so.

Our review of needs test files and related procedures at a sample of fee subsidy managers indicated the following concerns:

- Internal controls over needs test assessments varied significantly in areas such as supervisory review and approval. For example, at one fee subsidy manager, the needs test assessments were conducted, reviewed and approved by the same person with little supervisory review.
- Requirements for conducting and documenting needs tests varied significantly among fee subsidy managers. For example, requirements for documentation ranged from obtaining copies of a few asset-related documents such as RRSP statements to retaining copies of all documents reviewed.

Recommendation

To ensure that only eligible families receive subsidized child care, the Ministry should conduct periodic needs test file reviews based on assessed risks. Where deficiencies or inconsistencies are identified, the Ministry should take timely and appropriate corrective action.

Ministry Response

Ministry staff have been directed to conduct annual reviews of a sample of delivery agent needs test files and take timely and appropriate corrective action to ensure that ministry guidelines are being followed.

WAGE SUBSIDY PROGRAM

Wage subsidy grants consist of three distinct components introduced between 1987 and 1992 as follows:

- 1987 – Direct Operating Grants

These grants were based on an agency's licensed capacity and the age of the children it served. Non-profit agencies were eligible to receive 100% of the calculated amount while for-profit agencies were eligible to receive 50% of the amount calculated.

- 1991 – Wage Enhancement Grants

These grants were determined based on the number of permanent full- and part-time agency employees and were available only to non-profit agencies.

- 1992 – Home Provider Enhancement Grants

These grants provided a daily subsidy for home child-care providers of non-profit agencies.

The Ministry enters into an annual wage subsidy agreement with each eligible child-care agency under which the agencies must ensure that each employee receives a reasonable portion of the total grant. Distributions must not exceed \$9,030 per full-time-equivalent position in a non-profit agency and \$3,230 per full-time-equivalent position in a for-profit agency. Failure to comply with any of the funding conditions may result in a claim for recovery of the grant and ineligibility to receive future grants.

During the 1993/94 fiscal year, the government capped its funding for wage subsidy grants. Subsequently, the Ministry based its distribution of these grants on the agreements in place at that time. As a result, agencies that received grants then receive them now and agencies that did not receive them then do not generally receive them now.

PROGRAM EQUITY

Our review of the Ministry's wage subsidy grant calculation process and the way the Ministry implemented the 1993/94 funding cap identified significant inequities which, in our view, call into question the intent and effectiveness of the wage subsidy program.

For example, none of the grant calculations originally used to establish the amounts of wage subsidies, and hence current agency funding, considered actual wages paid. Although an argument can be made that these calculations were equitable at that time because all agencies were eligible for similar subsidies regardless of actual wages paid, that is no longer the case. Thus it is likely that some agencies that now pay relatively high wages continue to receive wage subsidy grants. However, other, perhaps newer agencies, that were not receiving wage subsidy grants in 1993/94 but may be paying relatively low wages now, are not eligible to receive these grants.

For example, in one of the area offices we visited, a municipality had administered its own wage subsidy program since 1983. Under the terms of this program, average non-supervisory salaries up to \$32,500 per year were eligible for wage subsidies.

During 1998, twelve child-care agencies were determined to be ineligible to continue to receive the municipal subsidy because their average non-supervisory salaries ranged from \$32,500 to \$41,500. However, despite their relatively high salaries, these same 12 centres continued to receive a total of about \$820,000 per year in ministry wage subsidy grants.

We also noted that:

- Unlike municipal wage subsidy programs and many other ministry transfer payment programs, child-care agencies were not required to reapply and demonstrate eligibility for wage subsidy grants annually.
- The practice of providing significantly different amounts of wage subsidies for employees of non-profit and for-profit child-care agencies was not equitable.
- Wage subsidy grants were not increased for agencies that have expanded their capacities since the program was capped in 1993/94. As a result, similarly sized centres could receive significantly different amounts of wage subsidy grants.
- One agency used its entire \$257,000 wage subsidy grant to reduce total operating costs because it was already paying relatively high salaries to all its employees. Although ministry guidelines permit this use of wage subsidy grants, the Regulation to the *Day Nurseries Act* stipulates that wage subsidies are to be used to enhance the salaries and benefits of the employees of child-care centres.
- As a result of the way the Ministry implemented the 1993/94 funding cap on the program, 335 of 2,180 agencies or 15% of all child-care agencies do not receive wage subsidy grants.

In 1996, a report prepared for the Ministry entitled *Improving Ontario's Child Care System* stated that, while current funding invested in wage subsidies should remain in the child-care system, it should be reinvested in a different way. This reinvestment should provide assistance for more families, better focus resources on those in need and provide more equitable funding across the entire system.

The report recommended that reinvestment should occur in two ways: all licensed operators, both for-profit and non-profit, should receive an equitable grant to maintain stability in the system; and the number of low income families receiving subsidized child care should be increased. The Ministry has not implemented these recommendations. The Ministry informed us that it had not done so because the recommendations had been deferred for future consideration in the context of Local Services Realignment.

Recommendation

To ensure that wage subsidy grants are fairly distributed, the Ministry should reassess its policy and method for subsidy grant distribution to ensure program equity, in accordance with program objectives.

Ministry Response

The Ministry has taken the following steps to more equitably distribute wage subsidy grants:

- ***as funds become available, they can be used to increase wage subsidies in either the commercial or non-profit sector to the non-profit formula level (regardless of date of existence);***
- ***existing wage subsidy funds are to be transferred to the new owner upon the sale of a centre regardless of whether there is a change of corporate status; and***
- ***funding adjustments are to be made when there is a reduction or increase in service capacity.***

WAGE SUBSIDY GRANT CALCULATIONS

Although wage subsidy grants to individual child-care agencies had not increased since the program funding was capped in 1993/94, agencies that are now caring for children in different age groups or that have downsized their programs in terms of either licensed capacity or full-time-equivalent positions should have had their wage subsidy grants recalculated and, where warranted, reduced by the Ministry.

In our review of a sample of wage subsidy grants and available supporting documentation, we noted some discrepancies:

- One quarter of the grants we reviewed showed a reduction in either the agency's licensed capacity or the number of its full-time-equivalent positions since the previous determination of the grant. However, the grants had not been reduced accordingly, which resulted in overpayments ranging from \$232 to \$27,855 per agency per year.
- Similarly, for one sixth of the grants we reviewed, we were unable to find any support for a portion, which totalled \$777,000 per year, of the grants paid.

Recommendation

The Ministry should periodically assess the appropriateness of the amounts of wage subsidy grants paid and ensure that assessments are adequately documented and based on current information.

Ministry Response

Consolidated Municipal Service Managers (CMSMs) will have responsibility for wage subsidy funding. The Ministry has directed CMSMs, upon designation, to conduct reviews whenever service providers report significant reductions in service levels. The Ministry will monitor CMSMs' compliance with ministry directives annually.

WAGE SUBSIDY UTILIZATION STATEMENTS

Although wage subsidy grants are exempted from the Ministry's normal APER process, grant recipients must submit an annual Wage Subsidy Utilization Statement, which is intended to ensure that grants are spent in accordance with the Ministry's conditions for funding. As noted above, these conditions include:

- that the grant be spent for the purposes intended;
- that each employee receive a reasonable portion of any wage subsidy, consistent with the agency's pay equity plan; and
- that employees of non-profit agencies and for-profit child-care agencies not receive more than \$9,030 and \$3,230 in wage subsidies per year respectively.

Our review of Wage Subsidy Utilization Statements and related ministry policies and procedures found that they were not effective in meeting their objectives as the following examples illustrate:

- When agencies provided both centre-based and private home-based child care, information in the Wage Subsidy Utilization Statement was not sufficiently detailed to determine whether funds were spent for the purposes intended. For example, for the agencies we reviewed that provided both types of child care, the Wage Subsidy Utilization Statements indicated that only 30.5% to 89.8% of private home-care wage subsidies were spent directly for that purpose. It was not possible to determine how the remaining funding was spent.
- Criteria for assessing whether or not each employee received a reasonable portion of the wage subsidy grant had not been established.
- Since Wage Subsidy Utilization Statements only provided information with respect to total expenditures and number of full-time-equivalent positions, the Ministry could not determine how grant funds were distributed to each individual or whether any individual received more than the maximum allowable amount.

We noted that a number of agencies received wage subsidy funding in excess of the maximum amount of \$9,030 per full-time-equivalent position. Several of them did not declare a funding

surplus on their Wage Subsidy Utilization Statements and consequently were not asked to return the excess amounts.

We also noted that Wage Subsidy Utilization Statements were signed by officers of the agency. However, there was no independent confirmation of the completeness and accuracy of the information reported.

Recommendations

The Ministry should more effectively determine whether wage subsidies are paid in appropriate amounts and for the purposes intended, based on sufficient information from the Wage Subsidy Utilization Statements.

The Ministry should also consider whether it is advisable to obtain independent confirmation of the completeness and accuracy of information provided in the Wage Subsidy Utilization Statements, as is currently ministry practice for other types of transfer payment Annual Program Expenditure Reconciliations.

Ministry Response

Upon designation, Consolidated Municipal Service Managers (CMSMs) will be required to have child-care service providers reconcile wage subsidy allocations against actual expenditures and to obtain independent confirmation of the information provided. CMSMs will also be required to conduct random sample reviews at least annually of the use of funds. The Ministry will monitor CMSMs' compliance with ministry directives.

LICENSING AND ENFORCEMENT

The *Day Nurseries Act* requires that the Ministry license child-care centres caring for more than five children under the age of 10 years and private home child-care agencies. The licence must be issued before operations begin and annually thereafter. Prior to issuing a licence, the Ministry conducts a formal licensing inspection. These inspections include the completion of a ministry-developed licensing checklist that requires a review of the physical premises, the services provided, and the organization's records, policies and procedures.

TIMELINESS OF LICENSING INSPECTIONS

Operators of a licensed child-care agency must apply for a licence renewal prior to the expiry date of the current licence. Providing that the operator has submitted a completed application for renewal, a licence past its expiry date is deemed to continue until the renewal is granted or refused. However, licences are expected to be renewed prior to their expiry dates except in "unusual circumstances" where the delay originates with the Ministry. In such cases, the licence renewal date becomes the new anniversary date.

Our review of licensing files showed that two thirds of all licensing inspections and resulting licence renewals occurred after the expiry date of the current licence. On average, these inspections and licence renewals occurred approximately one month after the expiry date and, in one case, six months after the expiry date. The reasons for these delays were not documented.

Recommendations

To ensure that child-care operators continue to be in compliance with licensing requirements, the Ministry should conduct inspections and renew licences on a more timely basis, as required by program guidelines.

When licensing inspections and renewals occur after licence expiry dates, the Ministry should ensure that the reason for the delay is documented.

Ministry Response

The Ministry licenses over 3,000 programs. A licence past its expiry date is deemed to continue. The Ministry makes efforts to renew licences in a timely fashion and on average renews them within a month of the renewal date. The Ministry will continue to require that licensing be conducted in a timely manner and monitor staff compliance through its regular management processes.

CRIMINAL REFERENCE CHECKS

In order to help protect children in care, effective December 1996, the Ministry established a requirement that every licensed child-care operator develop and implement a policy for conducting criminal reference checks for all employees. In addition, operators must indicate their compliance with this requirement in writing to the appropriate ministry area office. The area office must retain these letters in the operator's file. Our review of a sample of operators' files found that one quarter of the files did not contain the required letters.

Recommendation

To help ensure that all licensed child-care operators implement the required policy for criminal reference checks, the Ministry should make greater efforts to:

- **monitor operators' confirmations of compliance with criminal reference check requirements; and**
- **take corrective action when necessary to ensure that criminal reference check policies are in place and implemented.**

Ministry Response

The Ministry has sent a directive to regional offices to remind them to retain letters of compliance in their files. The Ministry is reviewing its current monitoring plan and will strengthen adherence to the requirements.

SERIOUS OCCURRENCES AND COMPLAINTS

SERIOUS OCCURRENCES

The *Day Nurseries Act* requires that all licensed child-care operators report to the Ministry within 24 hours any serious occurrences such as the injury or abuse of children in care. In addition, the Ministry's program guidelines require that a written follow-up report detailing the corrective actions to be taken must be received and reviewed by the Ministry within five working days.

Our review of serious occurrence files maintained in area offices revealed the following:

- In general, serious occurrences were reported to the Ministry within 24 hours as required.
- About one fifth of the required follow-up reports were not received within five working days. On average, these reports were submitted twelve working days after the occurrence, with one being 65 working days late.
- For about one fifth of the serious occurrence reports we reviewed, we found no evidence that ministry staff had reviewed and evaluated the appropriateness of the corrective actions taken.

COMPLAINTS

The Ministry's program guidelines require that all complaints not related to immediate health and safety concerns of children in care be investigated by ministry staff within five working days of notification. Many of these complaints relate to alleged illegal child-care operators—individuals who care for more than five children under 10 years of age but are not licensed under the *Day Nurseries Act*.

For the one third of complaints where the existence of an illegal operator is confirmed as a result of an initial ministry investigative visit, a second follow-up visit must be conducted within one month to confirm that the child-care provider is no longer in breach of the *Day Nurseries Act*.

We reviewed a sample of complaints and found that for approximately one third of the cases where an illegal operator was identified, there was no evidence that the required follow-up visits had been conducted.

Recommendation

As required by ministry policy, the Ministry should take the necessary steps to ensure that:

- all serious occurrence follow-up reports are reviewed and evaluated for the appropriateness of the corrective actions to be taken; and
- all required second follow-up visits resulting from reported complaints are conducted.

Ministry Response

The Ministry has developed a plan which will assist staff to improve on their documentation of serious occurrence follow-up actions. The Ministry has sent a directive to regional offices to remind them of the Ministry's policies on second follow-up visits resulting from reported complaints.

OTHER MATTER

MANAGEMENT INFORMATION

The Ministry has recently implemented a new computerized Services and Management Information System (SMIS) that monitors expenditure and service information for each child-care provider. Information is entered into the system by area office staff on a quarterly basis. All area office managers are required to confirm in writing to the Ministry's head office that the information entered into the system is complete and accurate.

However, we reviewed a sample of SMIS data for the offices we visited, and found:

- information with respect to expenditures and service data was often either missing or incomplete; and
- no evidence that ministry staff had reviewed and assessed the reasonableness of the information in SMIS to identify significant variances that warranted further review.

In addition, we also noted that the Ministry did not obtain copies of consultants' reports or auditors' management letters issued to the various fee subsidy managers and child-care providers. Such documents would be useful in identifying deficiencies requiring corrective action as well as best practices that could be communicated throughout the province.

Recommendation

The Ministry should ensure that the information in its Service and Management Information System is complete and accurate and used to identify significant variances requiring further review.

Ministry Response

Since its introduction in the 1997/98 fiscal year, the Service Management Information System has become more stable and staff are experienced in its use. Regular training will continue to be provided. Quarterly reporting in conjunction with the Service Management Information System will be used to identify significant variances.

3.03

MINISTRY OF COMMUNITY AND SOCIAL SERVICES

Community Accommodation Program

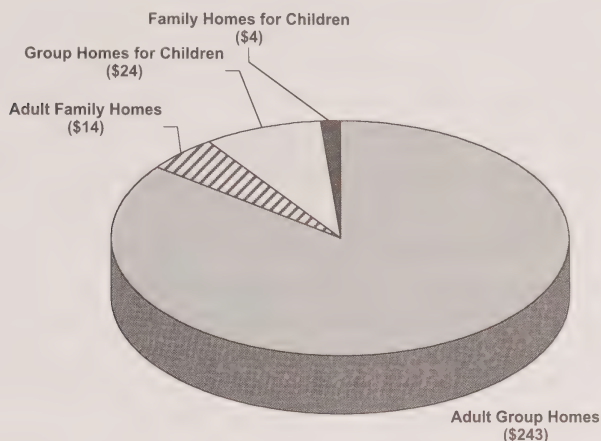
The Ministry of Community and Social Services' Community Accommodation program operates under the *Developmental Services Act*, the *Child and Family Services Act* and the *Homes for Retarded Persons Act*. The program funds approximately 200 non-profit agencies that provide community-based, residential accommodation and support to adults and children with developmental disabilities. The services provided range from minimal supervision for individuals placed in relatively independent living arrangements to intensive 24-hour-a-day, seven-day-a-week care when considered necessary.

The agencies providing residential accommodation are governed by independent volunteer boards of directors that are accountable to the Ministry. The framework for that accountability is prescribed by the Management Board of Cabinet Directive on Transfer Payment Accountability.

Residential accommodation and related services are typically provided in group homes, which generally house three to six individuals, or by placements of one or two individuals with associate or host families.

For the 1998/99 fiscal year, operating expenditures for the Community Accommodation program were approximately \$285 million, apportioned as indicated by the following chart. In addition, the Ministry approved one-time capital expenditures of about \$15 million for its Community Living Initiative for that year.

Community Accommodation 1998/99 (\$ Millions)



Source: Ministry of Community and Social Services

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry's procedures were adequate to ensure that:

- transfer payments to agencies were reasonable and satisfactorily controlled; and
- legislative requirements and program policies and procedures were being complied with.

The scope of our audit included a review and analysis of relevant ministry files and administrative procedures, as well as interviews with appropriate staff at the Ministry's head office and three area offices. We also visited a number of agency facilities and interviewed appropriate staff at these agencies.

Prior to the commencement of our audit fieldwork, we identified the audit criteria that would be used to conclude on our audit objectives. These were reviewed and agreed to by senior ministry management.

We conducted our audit during the period from November 1998 to March 1999. Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our audit also included a review of the audit reports issued by the Ministry's Comprehensive Audit and Investigations Branch. However, we were unable to reduce the extent of our audit work because the Branch had not issued any reports on the overall administration of the Community Accommodation program in the last two years, although it had conducted reviews of individual group homes, which we reviewed.

OVERALL AUDIT CONCLUSIONS

We concluded that the Ministry's procedures did not ensure that transfer payments to agencies were reasonable and satisfactorily controlled. More specifically, the Ministry needed:

- to fully implement the Management Board of Cabinet's Directive on Transfer Payment Accountability in order to demonstrate that transfer payment agency expenditures are managed prudently; and
- to establish the conditions necessary to allow it to rely on the governance of transfer payment agency boards of directors.

We also noted that the Ministry needed:

- to ensure that annual funding decisions are timely and based on a critical assessment of agency needs to ensure that the amounts approved are reasonable and commensurate with the services to be provided;
- to assess the necessity and reasonableness of operating and capital funding provided to transfer payment agencies under the Community Living Initiative;
- to identify, assess and, where necessary, follow up on significant variances between budgeted and actual expenditures and service data; and
- to ensure that Annual Program Expenditure Reconciliations and accompanying financial statements contain sufficiently detailed information to permit the Ministry to identify inappropriate or ineligible expenditures and to recover funding surpluses in a timely manner.

We concluded that ministry procedures to ensure compliance with legislative requirements and ministry program policies were not adequate. More specifically, the Ministry needed:

- to inspect and approve adult group and family home accommodations on a timely and consistent basis; and
- to ensure that serious occurrences are promptly reported and appropriately dealt with.

DETAILED AUDIT OBSERVATIONS

TRANSFER PAYMENT CONTROLS

TRANSFER PAYMENT AGENCY ACCOUNTABILITY AND GOVERNANCE

Transfer payment agencies are governed by independent, volunteer boards of directors and are not required to follow the administrative policies and procedures prescribed for the Ministry itself. However, because the funding they receive from the Ministry comes from taxpayers, the Ministry needs to hold them accountable for their use of public funds.

In our view, many of the concerns raised further on in this report, as well as many similar concerns cited in our previous reports of other ministry transfer payment programs, raise

questions about the effectiveness of the Ministry's ability to hold its transfer payment agencies accountable for the prudent use of public funds.

TRANSFER PAYMENT AGENCY ACCOUNTABILITY

Management Board of Cabinet has issued a Directive on Transfer Payment Accountability which prescribes a framework with four key requirements:

- setting explicit and measurable transfer payment agency expectations that support ministry program objectives;
- contracting for services;
- timely reporting of results achieved to determine whether expectations have been met; and
- when necessary, taking corrective action.

The intent of implementing such a framework is to ensure that expenditures of public funds are managed wisely and prudently and that planned objectives and results are achieved through effective program delivery.

The implementation of such a framework is particularly important since the Ministry has indicated on a number of occasions that it does not intend to involve itself in the management of transfer payment agencies, but rather assumes an overall service system management role.

Although the Ministry has undertaken a number of accountability initiatives, progress to date has not resulted in a transfer payment accountability framework that meets the requirements of the Management Board Directive as the points below explain.

- The Ministry has not defined or communicated explicit and measurable expectations for transfer payment agencies.
- We often found no evidence that the Ministry had reviewed or assessed reported results to determine whether its expectations had been met.
- Even where the Ministry had identified a need for corrective action, that action was often not taken.

Recommendation

To hold transfer payment agencies accountable for the prudent use of public funds, the Ministry should implement an accountability framework which satisfies the requirements of the Management Board Directive on Transfer Payment Accountability.

Ministry Response

The Ministry is strengthening accountability across program areas and business support activities. The Ministry approved a governance and accountability framework in June 1999 that will ensure coordination and coherence among governance and accountability initiatives.

In addition, the Ministry will issue a directive for implementing the framework that will address the four key elements of accountability (setting expectations; contracting; reporting of results; and corrective action).

TRANSFER PAYMENT AGENCY GOVERNANCE

As a result of the above-noted weaknesses in the transfer payment accountability process, the Ministry places considerable reliance on, and trust in, the agencies' boards of directors to ensure that their administration and their agencies' service delivery meet the Ministry's requirements.

However, for such reliance to be justified, the Ministry needs to ensure that the appropriate conditions for reliance are in place at each agency, which it had not yet done. These conditions include ensuring that:

- the board collectively has the expertise and experience necessary to discharge its responsibilities;
- an appropriate governance and reporting structure is in place; and
- the necessary operating policies and procedures are in place to ensure that service delivery is achieved economically, efficiently and effectively. These would include requirements, for example, with respect to client admission criteria and the extent and quality of care to be provided.

Establishing requirements for transfer payment agency governance is particularly important at this time, given the Ministry's limited resources for monitoring agencies, the increasing complexities of providing services, and the voluntary nature of agency boards.

Recommendation

To enhance and justify the reliance the Ministry can place on the boards of directors of transfer payment agencies, the Ministry should ensure that the conditions necessary for reliance are in place.

Ministry Response

The Ministry will issue a directive on transfer payment accountability and governance for the effective management of provincial transfer payment funds. The directive will be consistent with the Management Board Directive on Transfer Payment Accountability.

The transfer payment directive will be implemented by April 1, 2000 and will establish the basic accountability and governance requirements that all transfer payment recipients must meet.

AGENCY FUNDING REQUESTS AND APPROVALS

The Ministry enters into an annual funding and service agreement with each of its transfer payment agencies for the provision of community accommodation and related services and supports. The agreements are based on completed Service Budget Submission packages, which are normally sent out by the Ministry by June 30 of the year to which they relate and must be returned to the Ministry within two months of being sent out. Area office staff are expected to review the submissions, taking into consideration such things as previous years' expenditures, surpluses or deficits, caseloads and any other relevant, available information. Final budget approvals should be communicated to agencies as soon as possible to allow them to make any necessary expenditure adjustments.

We found that the budget request and approval process was not timely. Furthermore, the Ministry could not demonstrate that the budget amounts ultimately approved were reasonable and based on assessed needs, such as service requirements and types of supports to be provided, or reflected previous years' funding surpluses or deficits, as the following examples illustrate:

- The Ministry often did not receive and approve budget submissions until near, and in some cases after, the fiscal year-end. For example:
 - For the fiscal year ending March 31, 1999, almost two thirds of the agencies we reviewed had not received funding approvals, even though only a few months remained before the fiscal year-end.
 - Similarly, for the fiscal year ending March 31, 1998, over half the files we reviewed had not been finalized and had not received funding approvals until late 1997 and, in some cases, as late as June 1998, three months after the fiscal year-end.
- For approved budgets, we found no evidence on file to indicate how, or whether, the Ministry had determined the reasonableness of the amounts of funding approved. Instead, most budgets were approved in the same amounts as had been approved in the previous year without the necessary supporting explanations.
- Our analysis of the costs of similarly described programs indicated significant variances. For example, within one area office, we determined that the cost of adult group home accommodation ranged from about \$31,000 to \$71,000 per person per year. Although such a range in costs may well be justified, the Ministry could not demonstrate that that was the case.

Many of our previous reports to the Ministry have commented on the lack of timeliness and the inadequacy of the Ministry's transfer payment agency budget request and funding approval process. For example, in our 1997 report on the Ministry's Transfer Payment Agency Accountability and Governance, we recommended that the Ministry:

- critically assess requests for funding and ensure that the amounts approved are consistent with the demand for and value of the underlying services to be provided; and
- review and approve budget requests on a more timely basis.

The Ministry agreed with these recommendations and further committed to:

-
- establish provincial benchmarks for residential care programs in the form of levels of support with corresponding funding ranges. Once established, these funding ranges were to be phased in over a three-year period; and
 - speed up the budget request, review and approval process.

However, during our current audit, we found that the Ministry's commitments had not been implemented.

Recommendation

In order to help ensure that agency funding is equitable and appropriate, the Ministry should:

- **review and approve budget requests on a more timely basis; and**
- **critically assess budget requests to ensure that amounts approved are commensurate with the demand for and value of the underlying services to be provided.**

Ministry Response

The Ministry agrees that budget submission requests should be reviewed and approved on a timely basis and is taking the following steps:

- ***a review of the transfer payment budgeting and contracting process in order to develop strategies to improve timeliness; and***
- ***an assessment of the budget review process and development of a tool that establishes minimum review standards.***

COMMUNITY LIVING INITIATIVE

In 1996, the Ministry implemented a four-year Community Living Initiative to move residents from institutional settings into community-based care. For the 1997/98 fiscal year, this initiative resulted in 354 individuals being transferred from institutional to community-based care at an ongoing operational cost of \$20 million per year and a one-time capital cost of \$13 million for that year.

REVIEW OF OPERATIONAL FUNDING REQUESTS

An agency interested in providing accommodation to an individual being relocated from an institution must submit a proposal to its ministry area office. The proposal must include the estimated annual operating costs for supporting the individual as well as estimated one-time capital costs.

The area office is to review the proposal and, if satisfied, approve it. When an agency's proposal is approved and the individual moves, the ministry head office allocates to the agency's ministry area office \$55,000 per year, which is considered an average cost for each facility placement. The area office, in turn, determines how much of the \$55,000 it will provide to the agency based on the individual's placement plans. Excess area office funding, if any, is

available for other Community Living Initiative placements when funding requests exceed the provincial average for an individual placement.

We reviewed approved agency proposals to accommodate individuals in institutional care and found no evidence that the area offices had assessed the reasonableness of the incremental operating funding requested or approved. For example, in one case, an area office approved annual funding for one individual of \$72,000 per year, but was unable to demonstrate the reasonableness of this amount.

REVIEW OF CAPITAL FUNDING REQUESTS

It is the Ministry's practice to exempt agencies' capital funding requests under the Community Living Initiative from its regular capital project review and approval process, which requires an assessment of alternative options and the completion of a feasibility study and business case. Instead, the Ministry has a separate process for the review and approval of Community Living Initiative capital funding requests based on a general description of the proposed project and high-level cost estimates.

Consequently, in our review of approved capital project files, we found no evidence that the Ministry assessed whether other options could have met an agency's needs or whether the approved costs were reasonable. As a result, the Ministry could not demonstrate that the approved capital projects were the most suitable and economical in the circumstances. For example, in one case, the Ministry approved the construction of a three-bedroom bungalow at a cost of \$253,000 without assessing other alternatives and their related costs or the reasonableness of the approved project's costs.

Recommendation

In order to be able to demonstrate that funding provided to agencies under the Community Living Initiative is necessary and reasonable, the Ministry should review and adequately document its assessment of the necessity for and reasonableness of all approved costs.

Ministry Response

To make the best possible use of limited funds, the Ministry's placement principles and guidelines for capital projects assist in the review of funding requests. The Ministry will enhance the level of documentation to clearly demonstrate the reasonableness of costs included in operational and capital funding requests by the fall of 1999.

QUARTERLY REPORTING

Agencies are required to submit quarterly reports comparing budgeted to actual expenditures and service information such as number of days of care provided and number of occupied beds. Area offices must receive second- and third-quarter reports within 30 days of the end of the quarter and the fourth-quarter report by 45 days after year-end. The Ministry requires that

agencies fully explain and describe an appropriate course of action for all identified budgeted to actual variances greater than 10% or \$10,000 for financial data.

Some quarterly reports were never received while others identified significant variances that were not explained or followed up on. As a result, we found that the Ministry was not effectively monitoring agency expenditures or service levels or ensuring that appropriate corrective action was taken when necessary. For example:

- For one sixth of the agency files we reviewed, we found that some required quarterly reports were never received.
- For almost half of the agency files we reviewed, the year-end reports identified significant variances between budgeted and actual expenditures or between planned and actual service levels, yet the required explanations were either inadequate or not provided. We found no evidence that the Ministry had followed up on these variances. For example, at the 1997/98 fiscal year-end, one agency reported its actual expenditures as greater than the amount budgeted by \$403,000, or 19%, but the files contained no explanation for this variance.

Recommendation

In order to more effectively monitor agency expenditures and service levels and to better identify significant variances for follow-up and corrective action, the Ministry should:

- **obtain and analyze agency quarterly reports on a more timely basis;**
- **ensure that adequate explanations or corrective action plans are provided for all significant variances; and**
- **review and approve any necessary corrective action.**

Ministry Response

The Ministry is strengthening its requirements for adherence to its transfer payment policy regarding mandatory reporting. The timely receipt of data from agencies will assist in the consistent application of corrective action.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

Agencies receiving more than \$75,000 of ministry funding annually are required to submit an Annual Program Expenditure Reconciliation (APER) for each program funded together with audited financial statements no later than four months after each fiscal year-end. When not apparent from the financial statements themselves, the audited financial statements must include a note identifying any operating surpluses or deficits arising from ministry-funded programs.

The primary purpose of the APER is to reconcile a program's eligible expenditures with its approved budget in order to identify any surpluses for recovery by the Ministry and to identify

any inappropriate or ineligible expenditures. We found that the APER process was not effective in meeting its intended purpose for the reasons noted below:

- For approximately one half of the APERs we reviewed, the accompanying audited financial statements lacked either sufficient detail or the note disclosure necessary to identify inappropriate or ineligible expenditures and to permit the reconciliation of the audited financial statements with the APER-reported actual expenditures. Thus the Ministry did not have independent assurance as to the accuracy of the reported program surplus or deficit.
- At one area office we visited, some APERs were not received on a timely basis. For example, one agency submitted an APER in December 1997 that had been due July 31, 1997. At the time of our audit in January 1999, the Ministry had not yet received this same agency's 1997/98 APER, which was due by July 31, 1998. The agency continued to receive its regular funding throughout this period.

3.04

Recommendation

To identify and recover funding surpluses as well as the amounts of any inappropriate and ineligible expenditures, the Ministry should:

- **ensure that Annual Program Expenditure Reconciliations (APERs) and financial statements contain sufficiently detailed and comparable information to allow identification of funding surpluses or ineligible or inappropriate expenditures; and**
- **obtain, review and approve all APERs on a timely basis.**

Ministry Response

The Ministry will develop best practices for APER reconciliations by the fall of 1999, which will include:

- ***confirmation that non-retainable income, such as interest, is properly reported;***
- ***an approach for reconciliation of allocated central administration costs;***
- ***documentation of compliance with global budgeting guidelines;***
- ***practices for recording the results of the reconciliation process; and***
- ***recommendations for reporting reconciliation results to agencies with recommended corrective action to be taken in the next period.***

COMPLIANCE WITH LEGISLATION, POLICIES AND PROCEDURES

ADULT ACCOMMODATION

GROUP HOME APPROVALS AND INSPECTIONS

Adult group homes may be funded either under the *Developmental Services Act* or the *Homes for Retarded Persons Act*. Although there are no inspection or licensing requirements for homes funded under the *Developmental Services Act*, in practice, the Ministry follows the same requirements for them as for homes funded under the *Homes for Retarded Persons Act*.

Homes funded under the *Homes for Retarded Persons Act* must be inspected for compliance with health and safety requirements and approved by the Ministry both before a group home can operate and periodically thereafter. Prior to January 1999, the required frequency for following inspections was not defined.

Effective January 1, 1999, it is the responsibility of the service providers to complete an annual compliance checklist and provide written confirmation to the Ministry. In addition, for 1999 and later years, the Ministry established a policy requirement that area offices audit and approve 5% of their group homes on an annual basis.

Our review of agency group home files revealed the following concerns:

- Two thirds of the files reviewed lacked evidence of either the Ministry's initial approval of the group homes or any subsequent inspections or approvals.
- For almost half of the files that indicated a group home had been inspected and approved at least once and deficiencies had been noted, we found no evidence of ministry follow-up on the deficiencies to ensure that appropriate corrective action had been taken.

The Ministry's current requirement to conduct random audits of and approve 5% of group homes annually will result in group homes being inspected on average once every twenty years, which is not reasonable in our view. In addition, there is no requirement to assess or inspect high-risk homes on a more frequent basis.

FAMILY HOME INSPECTIONS

The Ministry's Family Home Program guidelines require that:

- ministry area offices monitor the performance of family home agencies through annual reviews;
- agencies, in turn, annually inspect and approve their individual family homes for compliance with ministry health and safety requirements and send copies of their approval notifications for these homes to the Ministry's area offices; and
- agency staff visit each home at least monthly, and more often if required, to maintain program quality and provide ongoing supervision.

With respect to these requirements, we noted that:

- One of the three area offices we visited had conducted a few agency compliance reviews over a three-year period while the other two offices had not conducted any such reviews.

- None of the ministry files we reviewed contained the required agency approval notifications for individual family homes.
- Determining whether the required monthly home visits had occurred was not possible because there was no requirement for such visits to be documented.

Recommendation

To ensure that group and family homes meet health and safety requirements, the Ministry should:

- **conduct initial and subsequent inspections of and approve adult group homes on a regular basis;**
- **follow up identified areas of group home non-compliance to ensure that any necessary corrective actions are taken;**
- **conduct and adequately document the required family home agency reviews; and**
- **ensure that it receives the required notifications of family home agency approvals of individual family homes and that monthly visits of agency staff to family homes are adequately documented.**

Ministry Response

The Ministry implemented a standardized checklist in January 1999 that sets expectations for service provider organizations to meet legislative and regulatory requirements, including health and safety. Service provider organizations are required to immediately rectify conditions of non-compliance with a work plan for outstanding items within an identified timeline.

The initiative to ensure that group and family homes meet legislative and regulatory requirements will be completed by the winter of 1999/2000.

To maintain the high quality of service currently in place for family home programs, the Ministry will ensure that funded agencies comply with ministry guidelines and that the required documentation is on file.

SERIOUS OCCURRENCES

The Ministry requires that all agencies verbally report to the Ministry within 24 hours all incidents of serious occurrences such as injuries or abuse of individuals in group or residential homes. In addition, a written follow-up report detailing the corrective actions taken or to be taken must be received and reviewed by the Ministry within five working days of the incident. At year-end, each agency prepares and submits to the Ministry a summary report of all serious occurrences for that year. The Ministry also records all serious occurrences by agency and compares that list to the year-end summaries provided by the agencies.

We found that the Ministry was not effectively monitoring and following up on serious occurrences. For example:

- For more than half of the files we reviewed, agencies had not provided the initial notification within the stipulated 24-hour period; the average delay was about nine days. For example, for one agency, approximately one quarter of initial notifications were provided two to three weeks after the serious occurrence.
- Almost two thirds of the written follow-up reports were also late. On average, these reports were received 21 days after the serious occurrence.
- Many written reports lacked sufficient detail to permit a review or assessment of the occurrence and the appropriateness of the corrective action to be taken. Additionally, we found no evidence that the Ministry had reviewed or, where necessary, followed up on many of the serious occurrences reported or assessed the proposed corrective actions.

Recommendation

To help safeguard the health and safety of individuals living in community accommodation, the Ministry should ensure that:

- **agencies report all serious occurrences both verbally and in writing within required timeframes; and**
- **ministry staff promptly investigate and follow up all serious occurrences to ensure that the necessary corrective actions have been taken.**

Ministry Response

The Ministry has developed an action plan to ensure that all regional offices and transfer payment agencies comply with the requirements of the serious occurrence reporting procedure. This will assist staff in their documentation of serious occurrence investigations and follow-up action.

MANAGEMENT INFORMATION SYSTEMS

The Ministry has recently implemented a new computerized Services and Management Information System (SMIS) that monitors expenditure and service information for each area office and community accommodation provider. Information is entered into the system by area office staff on a quarterly basis. All area office managers are required to confirm in writing to the Ministry's head office that the information entered into the system is complete and accurate.

Our review of the information recorded in the system identified a number of instances of incomplete, inaccurate, untimely and inconsistent information. This greatly reduced the effectiveness and usefulness of the system for monitoring and assessing area offices and agencies. For example:

- The information in SMIS had not been updated to reflect the approved contract particulars for agencies in any of the three area offices we visited. Also, the system had not been updated to track dates for budget receipts or contract approvals.
- Approximately 20% of the agencies we reviewed had calculated direct service costs on an annual basis per individual rather than on a daily basis as required.
- Some information was inaccurate. For example, in one area office, the cost per bed for children's group homes was calculated to be \$535,000 per year. This amount was inaccurate because only 20% of the agencies provided the number of beds for the calculation, which should have been based on the total number of beds. In another area office, the number of beds was not recorded at all and, consequently, the calculation could not be made.
- The system did not produce regular exception reports to enable the Ministry to identify missing expenditures or data elements, or to identify significant variances in costs or services requiring ministry follow up.

Recommendation

To improve the usefulness of its management information system, the Ministry should:

- ensure that complete and accurate agency information is collected and entered into the system on a timely basis; and
- implement regular, detailed exception reports for management review and follow up.

Ministry Response

Since its introduction in the 1997/98 fiscal year, the Service Management Information System has become more stable and staff are experienced in its use. Regular training will continue to be provided. Quarterly reporting in conjunction with the Service Management Information System will be used to identify significant variances requiring follow-up.

MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

Liquor Control Board of Ontario

The Liquor Control Board of Ontario (LCBO), which reports to the Minister of Consumer and Commercial Relations, is a Crown agency incorporated under the *Liquor Control Act* to regulate the production, importation, distribution and sale of alcoholic beverages in Ontario.

The LCBO operates about 600 stores that are supplied by five warehouses. In partnership with the LCBO, established retailers operate approximately 100 agency stores in communities without populations large enough to support regular LCBO stores.

The LCBO employs over 4,500 permanent and casual staff and provides consumers with over 11,000 products, consisting of about 2,600 regularly listed products, 3,200 Vintages products, and 5,200 products available through consignment and private ordering.

For the 1998/99 fiscal year, sales were approximately \$2.3 billion and net income was \$809 million, with the LCBO remitting \$776 million of its profits to the Consolidated Revenue Fund.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether the LCBO had adequate procedures in place to ensure that:

- the development and enhancement of store facilities were effectively planned and managed with due regard for economy and efficiency; and
- proper planning and controls were in place for staffing and other store-related operations to ensure economy and efficiency.

We identified the criteria to be used for our audit objectives and discussed them with LCBO senior management, who reviewed and accepted them.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Specifically, the scope of our audit included a review and analysis of documentation and discussions with staff at the LCBO's head office

and district offices and retail stores. Our audit also included a review of relevant work done by the LCBO's internal auditors.

OVERALL AUDIT CONCLUSIONS

We concluded that procedures were adequate to ensure that the development of store facilities as well as store operations were carried out economically and efficiently. However, we made a number of recommendations for improvements to which the LCBO responded with commitments for corrective action.

- With respect to store planning and the justification for capital projects, we recommended that the LCBO develop policies and requirements for marketing studies, financial analyses and post-implementation reviews to ensure that capital project decisions are based on timely, relevant and consistent information.
- Regarding contractor selection and management, we recommended that policies and procedures be developed for evaluating contractor performance and for justifying situations where single-sourced contracts are used in order to ensure that qualified contractors are selected through a transparent, competitive process.
- In the area of store performance, we recommended that the LCBO refine the indicators used in assessing store performance. We also recommended that the LCBO review the ongoing viability of certain of its smaller stores.
- In our review of store staffing, we recommended that the LCBO minimize staffing costs by more carefully analyzing factors affecting store operations and monitor and follow up on discrepancies in staffing levels among stores with similar characteristics.
- In our review of the Vintages program, we recommended that the LCBO monitor and assess the benefits of the program to ensure that it justifies its lower income contribution relative to the contribution of regularly listed products.

3.05

MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE

Financial Control Review

Although the Ministry of Economic Development, Trade and Tourism is now divided into the Ministry of Economic Development and Trade and the Ministry of Tourism, our review was completed prior to that division and, accordingly, reflects the timing of our work.

The overall goals of the Ministry are to help the private sector create jobs and to promote economic growth in Ontario. The Ministry's key objectives are to expand the province's economy, increase foreign and domestic investment, maintain the province's share of the world tourism market, and increase Ontario's share of the global export market.

Over the past four years, the Ministry has experienced a number of major structural changes including the amalgamation with, and separation from, the Ministry of Tourism and the devolution or wind-up of a number of agencies. There have also been significant changes in program delivery and substantial budget and staff downsizing. In addition, the Ministry became the provider of administrative services for the Ministry of Intergovernmental Affairs, and a number of financial functions will be transferred to a new central agency, the Shared Services Bureau.

The Ministry's expenditures for the 1998/99 fiscal year totalled \$161 million. These expenditures consisted of \$40 million for staff salaries and benefits, \$76 million for other direct operating expenditures such as supplies, services and equipment, and \$45 million for transfer payments and other disbursements.

REVIEW OBJECTIVES AND SCOPE

The objectives of our review were to assess the adequacy of the Ministry's financial controls, systems and procedures to ensure that expenditures were properly authorized, processed and recorded.

The criteria used to assess the financial controls were discussed with and agreed to by senior ministry management. These criteria provided a framework for our review of the Ministry's controls, systems and procedures.

Our review was performed in accordance with the standards for assurance engagements, including value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our review, which was substantially completed in May 1999, included an examination and analysis of financial documentation and discussions with ministry staff. We also reviewed plans and reports issued by the Ministry's Audit Services Branch and, where relevant, we relied on the work ministry audit staff had performed.

OVERALL REVIEW CONCLUSIONS

The Ministry had attempted to deal with the impact of the many structural changes on financial controls and had taken steps to act on many of the issues noted. However, we found that overall financial controls were not sufficient to ensure that expenditures were properly authorized, processed and recorded, and further effort was required to address the observed weaknesses in financial controls, systems and procedures. Specifically, we noted:

- Controls over the \$15 million spent through the Ministry's accountable advance account during the 1998/99 fiscal year were weak. As at January 31, 1999, \$475,000 worth of cheques and electronic fund transfers had been paid out but not recorded in the Ministry's financial system. In total we noted that 800 manual cheques and electronic fund transfers, totalling over \$2 million, were processed during the 1998/99 fiscal year without being promptly recorded in the financial system. In some cases, the delays between making payments and recording them in the system were six months or more. Consequently, errors and irregularities could occur and go undetected for extended periods of time.
- Controls over the cheque-signing machine were weak because one individual operated the machine and had access to the signature plate and blank cheques. This was contrary to the Ministry's policy of dual controls, which was designed to prevent any one individual from being in a position to perpetrate and conceal errors or irregularities in the normal course of their duties.
- As of March 1999, the most recent accountable advance bank reconciliation that had been completed, reviewed and approved by management was for the month of March 1998. Timely reconciliations of the bank balance to the financial accounting system and Ministry of Finance records are needed to help ensure that errors and irregularities do not go undetected.
- Controls over the authorization, processing and recording of the payroll were generally adequate although the Ministry needed to implement procedures to ensure that all changes to the payroll were accurate and complete.
- Procurement controls needed to be strengthened to ensure that purchases of goods and services are properly authorized, processed and competitively acquired in accordance with ministry policies.
- Of the 28 Finance Branch employees, 21 had the authority to enter transaction information into the financial system and approve payments. Thus, the Ministry lacked an appropriate segregation of duties as any one of these employees could independently enter transaction information and approve the processing of payments.

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- At the time of our review, \$22 million of expenditure differences between the Ministry's financial system and the Ministry of Finance's records relating to May 1998 had not been investigated and resolved.

Many of the concerns noted above had previously been brought to the attention of ministry management through the work of the Audit Services Branch. However, management had not fully addressed these concerns. Timely action by the Ministry is necessary to correct these financial control weaknesses.

DETAILED REVIEW OBSERVATIONS

ACCOUNTABLE ADVANCE ACCOUNT

The majority of the Ministry's expenditures are paid through government corporate systems operated by Management Board Secretariat (payroll) and the Ministry of Finance (other expenditures). These payments are made as instructed by the Ministry, which retains responsibility for them. The Ministry of Finance advances funds to the Ministry that are deposited under its name in a bank account called the accountable advance account.

The accountable advance account is used to pay for expenditures that the Ministry decides cannot be processed through the usual systems, generally because of a need for expediency. The account is intended to be used for rush payments, salary advances for new employees, employee travel expenses and petty cash fund reimbursements.

For the 1998/99 fiscal year, approximately \$15 million of payments were processed through the accountable advance account. These payments included both payroll and other expenditures. As of March 31, 1999, the Ministry had an accountable advance from the Ministry of Finance of \$1.5 million.

PAYMENT PROCESSING

Payments are made from the accountable advance account by manual or automated cheques and by electronic fund transfers. Automated cheques are printed at the Ministry's head office using data provided by the financial system. Manual cheques are prepared at head office and two other locations. At the two non-head office locations, ministry policy limits the amount for each manual cheque to \$5,000. This control limits the risks associated with errors and omissions. However, there was no maximum dollar limit for manual cheques written at head office, and there was no special approval process for large cheques, some of which exceeded \$75,000. Additionally, one of the other offices frequently exceeded its \$5,000 limit.

Another basic accounting control to help prevent errors and irregularities from occurring and going undetected is to record transactions in the financial accounting system at the time payments are made. However, we noted that a substantial number of manual cheques at all three ministry offices as well as electronic fund transfers from head office were processed well before being recorded in the system. The delays between making payments and recording them on the system were often two months, and in some cases delays were six months or more. We noted that, in total, 800 manual cheques and electronic fund transfers, totalling over \$2 million,

had been processed during the 1998/99 fiscal year well before being recorded in the financial system.

Processing payments without first recording them in the financial system increases the risk that irregularities or errors could occur and go undetected. Also, paying invoices without recording them on the financial system eliminates other controls. For example, the system has an automated edit control designed to prevent a particular supplier's invoice from being paid twice. In our expenditure sampling work, we observed that, because of a clerical error, a \$16,000 batch of invoices had been paid twice, once by manual cheques and a second time by automated cheques. Although the Ministry detected this error and recovered the double payment, such errors can be prevented by promptly recording manual payments in the financial system.

3.06

We reviewed the Ministry's bank statement as at January 31, 1999, and observed \$475,000 worth of cheques and electronic fund transfers had been paid out but not recorded in the financial system. Ministry deposits were also often not recorded in the financial system until days or even weeks after the deposits had been made.

Recommendation

To help reduce the risk that errors or irregularities could occur and go undetected, the Ministry should:

- **establish, where necessary, and enforce maximum dollar amounts for manual cheques;**
- **record all manual cheques and electronic fund transfers in the financial system at the time the transactions are processed; and**
- **record deposits on a timely basis.**

Ministry Response

The Ministry will establish a maximum dollar limit of \$100,000 for head office manual cheques and will retain the \$5,000 maximum dollar limit for manual cheques for the two tourism attractions, Huronia Historical Parks and Old Fort William. The Ministry will also implement procedures to ensure compliance with the policies limiting dollar amounts for manual cheques.

The Ministry agrees that the manual cheques, electronic fund transfers and bank deposits were not recorded in as timely a manner as desired. This was due to heavy workload and changes in staff. Significant efforts were made to deal with this issue by year-end. The Ministry will be advising head office and tourism attractions financial staff of the importance of prompt recording of transactions, requesting that they follow established procedures, and monitoring their performance.

CHEQUE SIGNING CONTROLS

Ministry policy requires two signatures on all cheques to ensure that no one individual is in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. All head office cheques are processed using a cheque-signing machine that automatically imprints two signatures on the cheques. The two signatures are reproduced by a signature plate that can be removed from the machine. The machine is designed to maintain the dual authority by requiring two individuals to unlock it before it can be used to process cheques.

We found that during business hours both keys for the cheque-signing machine were in the possession of one individual. We also found that during business hours the keys to the cheque-signing machine and some blank cheques were kept in unlocked locations. The removable signature plate was kept in the machine at all times. In 1990, the Ministry's Audit Services Branch reported this lack of segregation of duties and the associated risk of errors or irregularities. The Ministry responded that, due to compensating controls, it did not consider it necessary to implement the suggested dual controls over the cheque-signing machine.

Recommendation

To ensure that no one individual is in a position to perpetrate and conceal errors or irregularities in the normal course of their duties, the Ministry should ensure that:

- the keys to the cheque-signing machine are in the possession of two different individuals;
- the machine is dual locked when not in use; and
- the signature plate, both keys and all blank cheques are kept in secure locations.

Ministry Response

The Ministry will review existing controls over the cheque signing functions and implement procedures, including those recommended, to ensure that there is a proper segregation of duties in place.

ADVANCE ACCOUNT AGREEMENTS AND RECONCILIATIONS

Ministry of Finance policy requires a written agreement outlining the roles and responsibilities of the Ministry regarding the accountable advance account. The purpose of the agreement is to establish specific responsibilities for recording, control, reimbursement and repayment of accountable advances. Such agreements help provide the Ministry of Finance with assurance that funds advanced are properly managed and periodically reconciled. In 1993, the Ministry of Finance drafted such an agreement but the agreement was not finalized. Consequently, no requirements were in place stipulating the permissible uses for the accountable advance account or periodic reporting of account reconciliations to the Ministry of Finance.

The Ministry processed over \$15 million in payments through its accountable advance account during the 1998/99 fiscal year, which, as a percentage of total expenditures, is far

higher than that of any other ministry. The Ministry used the account for regular payments that should have been paid through the Ministry of Finance's system.

An essential control over the accountable advance account is the preparation of monthly accountable advance account bank reconciliations. This process compares the transactions recorded on the bank statement to the payment information in the financial accounting system and reconciles the bank balance to the amount of the accountable advance. This control ensures that errors and irregularities will not go undetected. However, reconciliations were not being completed and reviewed by ministry management on a timely basis. As of March 1999, the most recent bank reconciliation that had been completed and approved by management was for the month of March 1998.

The Ministry's Audit Services Branch reported in 1997 that bank reconciliations were not being prepared and reviewed on a timely basis. Action was taken to correct this critical internal control weakness but, at the time of our review, the Ministry had not resolved the reconciliation backlog.

3.06

Recommendation

To ensure that the accountable advance account is properly managed and controlled, the Ministry should:

- **conclude a written agreement with the Ministry of Finance stipulating the permissible uses for the account and periodic reporting requirements; and**
- **ensure that monthly bank reconciliations are completed and reviewed on a timely basis.**

Ministry Response

The Ministry will follow up with the Ministry of Finance to ensure that advance account agreements are signed for each of the three ministries that receive financial services from the Finance Branch—the Ministry of Economic Development and Trade, the Ministry of Intergovernmental Affairs and the new Ministry of Tourism. The ministries were under the impression that appropriate agreements had been signed because a copy of one agreement was on file with the Ministry of Finance.

The Ministry agrees that bank reconciliations should be completed and reviewed on a timely basis. Draft bank reconciliations were completed in a timely manner. However, due to staff changes, finalization of the draft bank reconciliations had fallen behind during the summer and early fall of 1998. Finance Branch management recognized this was a problem and, in the late fall of 1998, assigned additional staff resources to finalize the reconciliations. By year-end, the reconciliations were completed and variances resolved.

For the 1999/2000 fiscal year, the Ministry will be redesigning the overall reconciliation function as part of a branch organizational review to ensure that this does not happen again.

PAYROLL EXPENDITURES

The Ministry employs about 450 full-time staff and a number of seasonal and part-time employees. Staff salaries and benefits for the year ended March 31, 1999 were \$40 million. Management Board Secretariat is responsible for the government's centralized corporate payroll system but the Ministry performs general payroll functions including the compilation and input of payroll information and the verification of payments. The Ministry is ultimately responsible for ensuring that the payroll is processed correctly.

We reviewed the procedures for the authorization, processing and recording of payroll and found that controls were generally adequate although we noted the following weaknesses that needed to be addressed:

- To ensure that all changes to the payroll are accurate and complete, the Ministry's Audit Services Branch recommended, in January 1996, that input documents be compared to output reports and that such comparisons be done by someone other than the person who input payroll change information. However, the Ministry had not implemented this control. Consequently, errors could occur and not be corrected on a timely basis.

For example, we found that an employee left the Ministry to work for another ministry in October 1998 but continued to be paid a total of \$18,000 until January 1999. The employee was not double-paid because payments from the new employer did not begin until payments from the Ministry of Economic Development, Trade and Tourism ceased. However, no journal entry had been made to recover these funds from the other ministry.

- In order to ensure that the biweekly payroll is reasonable, the Ministry should compare the pay list to the expected pay prior to approving the payroll for processing. This control is designed to identify unreasonable payments. For example, we noted that in March 1999 an employee was paid for 152 hours of work during a two-week period when that employee had worked 94 hours. The employee was overpaid \$2,000 for that two-week period. In June 1999, the Ministry initiated action to recover this overpayment.
- To help ensure the accuracy of salaries and employee benefits, ministry policy requires prompt reconciliation of the payroll and benefits with the amounts recorded in Ministry of Finance records. In January 1996, the Ministry's Audit Services Branch expressed concern that important pay and benefits accounts were not being reconciled to Ministry of Finance records on a timely basis. At the time of our audit, we noted that the reconciliation of pay and benefits information was still not being performed on a timely basis. For example, as of January 1999, a report for the month of May 1998 showed unreconciled pay and benefit differences of over \$1 million.

Recommendation

To ensure that the payroll is accurate, the Ministry should:

- **check input documents to output reports and ensure that this check is done by someone other than the person who enters payroll change information;**

- compare the pay-list to the expected pay and follow up on any significant differences prior to approving the payroll for processing; and
- promptly investigate and resolve any discrepancies between the pay and benefits accounts and Ministry of Finance records.

Ministry Response

The Ministry, together with the Shared Services Bureau, will review the current responsibilities and procedures for payroll reconciliation to strengthen this function and take appropriate action.

3.06

OTHER EXPENDITURES

PROCUREMENT PRACTICES

For the 1998/99 fiscal year, Ministry expenditures were \$121 million for direct operating expenditures such as supplies, services and equipment, and for transfer payments and other disbursements.

The Ministry has established policies designed to ensure that payments are made correctly and that purchases of goods and services are properly approved and acquired at competitive prices. The program areas typically prepare requisitions for proposed purchases and forward them to the Finance Branch for approval. Depending on the cost and the type of acquisition, a competitive selection process and a formal contract may be required. Subsequent to purchasing goods and services, the program areas verify that the purchases have been received and that the invoices have been calculated correctly. The invoice is then forwarded to the Finance Branch for payment.

We reviewed a sample of ministry purchases and found that adequate controls were not in place to ensure that purchases of goods and services were properly authorized, processed and competitively acquired, in accordance with ministry policies. For over 60% of the purchases we reviewed, we noted weaknesses in the procurement process. For example:

- The Ministry paid an agency over \$5 million to place advertisements with television stations. The Ministry had not completely checked the agency's billing to ensure that all advertising paid for had actually been obtained. We also noted that certain eligible discounts had not been taken.
- Our review indicated that certain ineligible costs had not been questioned by the Ministry prior to paying an agency \$400,000 to perform media relations work. We also noted that the Ministry processed these payments without having on hand information that was needed to ascertain whether the cost calculations were correct.
- An advertising agency billed the Ministry for work amounting to \$475,000 even though the required contracts had not been entered into and purchase order approval had not been received from the Finance Branch.
- Without going through the required competitive selection process, the Ministry paid \$70,000 to a vendor to subcontract editorial services.

Recommendation

To ensure that payments are processed accurately and that the risks of errors and irregularities are minimized, the Ministry should:

- thoroughly check the accuracy of invoices, verify that goods and services have been received and obtain all discounts; and
- require that all payments be supported by evidence of compliance with the Ministry's mandatory competitive acquisition and approval policies.

Ministry Response

The Ministry agrees with the recommendation and will:

- *review our procurement policies and procedures;*
- *review the feasibility of taking discounts in view of the government's 30-day payment policy and possible savings;*
- *ensure all ministry staff receive an update of these policies and procedures;*
- *provide training to ministry staff on procurement;*
- *monitor procurement practices across the Ministry to ensure compliance with ministry policies and procedures; and*
- *in cases of non-compliance, follow up with management.*

COMPUTER PROCESSING CONTROLS

The Ministry's financial system records all budget and expenditure information and is used to inform the Ministry of Finance regarding the payment of invoices. Ministry policy requires all transaction information to be entered into its financial system and held in suspense until subsequently approved for payment by a separate entry into the system. The computer processing controls associated with the financial system are designed to prevent anyone from independently initiating and approving transactions. The processing controls are intended to provide an adequate segregation of duties and, to maintain accountability, include a record of the individuals who approved payments. The purchasing function also is to be segregated from payment processing.

Of the 28 employees in the Finance Branch, 21 had the authority both to enter transaction information into the financial system and to approve payments. Therefore, the Branch lacked an appropriate segregation of duties since any one of these employees could independently enter transaction information and trigger the payment of invoices. Also, the system did not record the identities of staff who approved transactions for payment.

The Ministry requires purchases over \$200 to be made using purchase orders to provide evidence of approval for the goods ordered and details that can be matched to the goods received. The financial system can match invoices to purchase orders but this edit check can be bypassed at the option of the individual who enters the invoice information. Also, four employees could both approve purchase orders and enter invoice information into the system.

Thus, the Ministry lacked segregation of duties between the purchasing and payments functions.

Recommendation

In order to provide adequate computer processing controls over the payment of expenditures, the Ministry should:

- **limit the number of staff who have the authority to enter transaction information and approve payments, and ensure that no one individual has the authority to do both;**
- **keep a systems log of the individuals who approve each transaction;**
- **require management approval to process invoices that cannot be matched to purchase orders; and**
- **ensure an adequate segregation of duties between the purchasing and payment processing functions.**

Ministry Response

The Ministry agrees that there should be adequate computer processing controls over the payment of expenditures. The Ministry will review the feasibility of modifying the financial system as recommended and, where costs are prohibitive, compensating measures will be implemented to ensure that adequate controls are in place.

RECONCILIATIONS WITH MINISTRY OF FINANCE RECORDS

Monthly reconciliations between the Ministry's financial system and Ministry of Finance records serve to ensure that all transactions recorded in the Ministry's system are accurate and complete, and also help to identify any errors and omissions on a timely basis.

The Ministry had not completed monthly reconciliations of its financial system to Ministry of Finance records since March 31, 1998. In January 1999, we reviewed partial reconciliations for subsequent months and noted that significant discrepancies still needed to be investigated and resolved. For example, for the month of May 1998, there were still \$22 million of expenditure differences between the Ministry's system and Ministry of Finance records that needed to be followed up and resolved.

The Ministry's Audit Services Branch had informed ministry management of the lack of timely reconciliations in February 1997. The Ministry indicated to us that action had been taken to bring the reconciliations up to date and that, by June 1999, it expected to complete the reconciliations for the months of April 1998 to March 1999. However, in order to function effectively, reconciliations need to be performed on a timely basis rather than once a year.

Recommendation

To ensure that all transactions recorded in the Ministry's financial system are accurate and complete, the Ministry should:

- perform monthly reconciliations of its financial system to Ministry of Finance records; and
- follow up on and resolve any differences on a timely basis.

Ministry Response

The Ministry agrees that reconciliations should be completed promptly and variances resolved in a timely manner.

Due to staff changes, the reconciliation function had fallen behind during the summer and early fall of 1998. Branch management recognized this was a problem, and in late fall, assigned additional staff resources to bring the reconciliations up to date. By February 1999, reconciliations were completed up to September 1998, and variances were being resolved. By year-end, the reconciliations were completed up to March 1999, and variances resolved prior to the close of books for the 1998/99 fiscal year.

For the 1999/2000 fiscal year, the Ministry will be redesigning the reconciliation function as part of the branch organizational review to ensure that this does not happen again.

GENERAL FINANCIAL CONTROLS

STAFFING

The Ministry's Finance Branch has a complement of 28 employees. The Branch is responsible for a number of financial control functions including processing payments, managing the accountable advances account, approving purchase orders, preparing monthly financial statements and budgeting.

As of May 1999, nine of the 28 branch employees were in temporary or acting positions, including jobs responsible for key financial controls such as the preparation of reconciliations. Further, due to the staffing situation, a number of staff were working significant amounts of overtime. Also, in September 1997, the Ministry's Audit Services Branch expressed concerns about the lack of staff continuity in the Finance Branch.

Recommendation

In order to ensure that key financial control activities are performed on a timely basis by well trained and knowledgeable staff, the Ministry should review the staffing of the Finance Branch.

Ministry Response

As noted previously, the Ministry has undergone significant downsizing and major organizational restructuring over the past four years which has resulted in constant changes and workload pressures for the Branch. In addition, there has been a lack of continuity in several key functions in the Branch due to staff changes. It needs to be recognized that, within these operating constraints, the Branch staff have worked extremely hard to provide ongoing financial services and maintain adequate financial controls and procedures.

At the same time, the Ministry is committed to strengthening the capabilities of the Branch and has taken steps to address these issues. On an interim basis, management has brought in additional staff to support key functions such as reconciliation and purchasing. To address these issues over the longer term, the Ministry has initiated a review of the Branch to ensure timely financial services to its clients and appropriate financial controls. The review will address organizational design, staffing needs, training and re-engineering/streamlining.

Provincial Personal Income Tax Revenue and Related Credits and Reductions

Personal income tax is by far the largest source of revenue for the Province of Ontario. For the 1998/99 fiscal year, the province received approximately \$17.2 billion in personal income taxes net of \$1 billion in tax credits, which represents 31% of total revenues.

With the exception of Quebec, all Canadian provinces and territories have entered into a personal income tax collection agreement with the federal government. The original Tax Collection Agreement between the Province of Ontario and the federal government was signed on April 24, 1962, and has subsequently been amended on a number of occasions, often through side agreements or letters between the respective parties. Under the terms of this Agreement, the federal government processes and collects Ontario personal income taxes, processes claims for personal income tax credits and reductions provided for under provincial legislation, and remits the net proceeds to the province.

Other significant provisions of Ontario's Tax Collection Agreement include requirements that the province:

- base its income taxes on only one rate of basic federal tax (changeable in multiples of one half of one percent);
- mirror federal requirements for such things as rates of interest and penalties imposed on outstanding amounts, the manner in which installment payments are to be made, and the rates at which deductions from income are to be withheld at source;
- accept that enforcement and investigation strategies on behalf of the province are the sole responsibility of the federal government; and
- accept as final all decisions of the Minister of National Revenue with respect to the administration of tax legislation.

As a result, the Ministry of Finance has no direct role in the collection or administration of personal income tax in Ontario.

Except for a fee of approximately one percent of the value of the nine provincial tax credits processed, a fee of about \$8 million per year, the federal government does not charge Ontario for the collection and administration of its provincial income taxes and assumes responsibility for all bad debts. In exchange, the federal government retains all non-tax revenues such as interest and penalties.

For each taxation year, the Ministry receives a Statement of Income Taxes Payable to the Provinces and Territories and accompanying notes, which is audited by the Auditor General of Canada. Although the Auditor General's opinion provides assurance over the assessment and distribution of income taxes payable to the provinces and territories, under the terms of reference, neither the Statement nor the opinion would be expected to address many of the issues raised in this report such as the use of revenue forecasts and the timing of cash flows. In that respect, the Notes to the Statement of Income Taxes Payable to the Provinces and Territories also caution that, when verifying a taxpayer's return, Revenue Canada uses criteria which are generally less exacting than the provisions of the income tax acts and regulations. These criteria cover all areas of a tax return, including the determination of the taxpayer's province or territory of residence.

3.07

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the Ministry of Finance had adequate requirements and controls in place to ensure that:

- personal income taxes payable to Ontario were correctly determined and remitted to the province on a timely basis; and
- the correct amount of tax credits, tax reductions and Guaranteed Annual Income Supplement program (GAINS) benefits were provided to eligible individuals.

For our second objective, we focused on the Property and Sales Tax Credits and the Labour Sponsored Investment Fund Tax Credit, which together accounted for 98% of the value of the nine provincial tax credits administered by the federal government.

The scope of our work included a review and analysis of relevant ministry files and administrative procedures as well as interviews with appropriate Ministry of Finance staff at the Macroeconomics Analysis and Policy Branch, Tax Design and Legislation Branch, Taxation Policy Branch, and Tax Credits and Grants Branch. We also interviewed senior staff at Revenue Canada and the federal Department of Finance, given the significance of their departments' involvement in the process of collecting provincial personal income tax.

Prior to commencing our audit field work, we identified the audit criteria to be used to address our audit objectives. These criteria were reviewed and agreed to by senior management at the Ministry.

We conducted our audit during the period September 1998 to March 1999, with emphasis on the procedures in place with respect to tax revenues and credits processed for the 1997 taxation year. Our audit was conducted in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The work of the Ministry's Audit Services Branch did not affect the scope of our work because the Branch had not reviewed or issued a report on personal income tax revenues, tax credits, tax reductions or GAINS during the last three years.

OVERALL AUDIT CONCLUSIONS

Although a number of amendments have been made to Ontario's original Tax Collection Agreement over the years, we noted that many of these were administrative in nature, with the result that many of the underlying principles and practices governing the original agreement have remained the same.

We concluded that the Ministry did not have the necessary information to assess whether personal income taxes were correctly determined. In addition, we concluded that personal income taxes paid ought to be remitted to the province in a more timely manner.

More specifically, in-year cash flows of personal income tax revenue to Ontario by the federal government have always been based on federal forecasts of provincial income tax revenues for that year and actual tax revenues from the two previous taxation years. While such an approach may have been the preferable or only practical option in the early 1960s when the original agreement was implemented, it is no longer adequate in our view. Significant advances in computer technology and administrative systems should make it possible to now provide more accurate and timely cash flows to Ontario, based on actual personal income taxes paid to the federal government during the year. In that regard, we noted that:

- For the last three completed taxation years, in-year personal income tax cash flows to Ontario, which were based on revenue forecasts, were much less than the amounts collected by Revenue Canada for each of those years. We estimated that the province's interests costs associated with these tax flow deficiencies totalled \$189 million for those years.
- Although Revenue Canada has significantly advanced its due dates for employer remittances in recent years, it has not similarly advanced the date of its own scheduled remittances to Ontario. This results in delayed cash flows of hundreds of millions of dollars to the province.

The federal government also does not share with Ontario the interest and penalties revenue received in excess of bad debts written off from Ontario personal income tax payers. The Ministry estimated that the federal benefit from retaining this net revenue could exceed \$50 million per year. However, at the time of our audit, the federal government had not provided the Ministry with the data required to verify the actual federal benefit.

We also noted that the Tax Collection Agreement imposes a number of significant limitations on the province with respect to the implementation of tax policy changes and administrative practices, the necessity and advisability of which are no longer clear. For example:

- The Ministry has very little input into or information about Revenue Canada's audit strategy or coverage of taxpayers liable for Ontario personal income tax.
- The Tax Collection Agreement restricts the flexibility of the province to pursue its own tax policies.

With respect to the implementation and administration of Ontario tax credits and tax reductions, we noted that:

- Although it is not specified in the Tax Collection Agreement, in practice the province must obtain approval from the federal government to implement Ontario-specific tax credits. We understand that in some instances such approval has been denied.

- Although the Ministry had established a desired level of audit coverage for all property and sales tax credits claims, actual coverage by Revenue Canada was less than half of the Ministry's desired level. Notwithstanding, \$5.7 million in ineligible claims were identified in the 1996 taxation year. Expanding audit coverage to the desired level would likely provide similarly favourable results.
- Contrary to its own requirements, the Ministry had not completed audits of Labour Sponsored Investment Funds at least once every two years for their compliance with legislated investment requirements and the adequacy of their internal controls over the issuance of tax credit certificates.
- Revenue Canada did not verify some of the information necessary to establish taxpayers' eligibility for Ontario tax reductions.

3.07

DETAILED AUDIT OBSERVATIONS

TIMING OF PERSONAL INCOME TAX FLOWS

USE OF REVENUE FORECASTS

The federal government annually prepares forecasts of expected provincial and territorial income tax revenues, which are the basis of in-year personal income tax payments to the provinces and territories. The first forecast is prepared in January of each year and is based on such things as expected gross domestic product, employment statistics, projected changes in the consumer price index, tax rate changes, if any, and actual taxable income from the second previous taxation year. The revenue forecasts are normally revised in August and November of each year based on updated information including actual tax assessments issued to that date for the previous taxation year, policy changes and the latest economic data.

The final determination of provincial personal income tax revenue is made by Revenue Canada in February of the second following year since most, if not all, income tax returns have been filed and assessed at that time.

The Ministry of Finance provides some input into the federal government's revenue forecasts with respect to the expected effect of provincial surtaxes, tax reductions and tax credits. However, on a combined basis, these items account for a relatively small amount of the total revenues forecast.

Copies of the federal government's revenue forecasts are sent to the Ministry of Finance for its review. However, there is no requirement that the Ministry approve the revenue forecasts even though they have significant impacts on the province's cash flow.

We compared the revenue forecasts, and consequent in-year provincial income tax payments to Ontario, to the final determination of Ontario personal income tax revenues for the last three completed taxation years. We found that forecast revenues, and therefore in-year cash flows, were much less than the final determination of personal income tax revenues, as illustrated in the following table.

**Underestimation of Revenue Forecasts and
Associated Interest Costs, 1995-97**

Taxation Year	Underestimation (\$ millions)	Interest Cost (\$ millions)
1995	280	35.5
1996	390	42.7
1997	1,394	110.8
		189.0

*Source: Based on Ministry of Finance data and
Office of the Provincial Auditor*

We noted that the underestimated amounts of tax revenues were paid to Ontario between January and March of the second following year, or on average 20 months after they were received by Revenue Canada. We also noted that the Tax Collection Agreement does not provide for any interest payment to compensate Ontario for this delay. Using Ontario's short term borrowing rates, we estimated that the cost of the cash flow deficiencies to the province for those years totalled \$189 million, as shown in the above table.

PAYMENT FLOWS

Revenue Canada requires employers to withhold personal income tax amounts from employees during the year and remit them to Revenue Canada based on predetermined schedules that vary with the size and classification of the employer. Similarly, self-employed individuals are required to make income tax installment payments during the year.

Revenue Canada in turn remits the provincial or territorial portion of the taxes collected to the provinces and territories based on requirements in effect under the tax collection agreements. For 1997, in-year payments to Ontario were as shown in the following table.

Ontario's In-Year Payment Schedule, 1997

February 19 to August 28	27 equal payments based on the original revenue forecasts.
September 9 to November 27	12 equal payments based on the first revised revenue forecast prepared in August.
December 8 to February 9	9 equal payments based on the second revised revenue forecast prepared in November.

Source: Department of Finance

Since the inception of the original Tax Collection Agreement, Revenue Canada has continuously advanced its due dates for income taxes withheld at source by employers. For example, since January 1, 1990, large employers with average monthly remittances of \$50,000 or more have been required to remit their source deductions within three working days of the end of the pay week. It is estimated that 73% of all withholding taxes are remitted by these types of employers.

However, in-year personal income tax payments by the federal government to the provinces and territories have not been advanced to the same degree, which has resulted in a benefit to the federal government at the expense of the provinces and territories.

Because of provincial and territorial concerns on this issue, the federal government in 1997 undertook a study of its provincial and territorial personal income tax inflows and outflows for the 1995 taxation year. The study concluded that the 1995 cash flows favoured the federal government and that the federal government's total interest benefit was approximately \$100 million for that year. Fifty-two million dollars of that amount related to Ontario.

As a result of this study, Ontario received a one-time payment of \$52 million in early 1998 in respect of the 1997 taxation year. There was no compensation for any other previous years. The federal government also agreed to advance the first payment to Ontario from mid-February in 1997 to the end of January for 1998 and subsequent years.

However, potentially significant cash flow deficiencies and resultant costs to Ontario remain. For example, for 1999 Revenue Canada received provincial and territorial personal income tax remittances as early as January 12 while the earliest payment to Ontario was January 28. As a result, Revenue Canada still collected hundreds of millions of dollars in Ontario personal income taxes before the first installment was remitted to the province.

With advances in information technology, including electronic transfers of funds, that have been made since the Tax Collection Agreement was first signed in 1962, the federal government should now be able to forward to the province its share of personal income taxes as soon as employers have remitted them to Revenue Canada.

In addition, we noted that for 1995, the year studied by the federal government, the underestimation of Ontario's income tax revenue forecast was the least of the last three completed tax years. We also note that the benefit to the federal government and resultant cost to the province can vary significantly from year to year due to the timing of cash flows and changes in interest rates.

Recommendations

To ensure that payments of Ontario personal income taxes are remitted to the province in the correct amount and on a more timely basis, the Ministry should consider negotiating the necessary amendments to the Tax Collection Agreement pertaining to cash flows.

As long as in-year payments to Ontario continue to be based on revenue forecasts and are subject to delay, the Ministry should seek compensation for the cash flow deficiencies for each year.

Ministry Response

The Ministry agrees that advances in information technology may make it possible for the federal government to base its payments to Ontario on actual income tax receipts and for these payments to be remitted to the province on a more timely basis. The Ministry is currently examining this issue, including the question of whether the payment system generally benefits the federal government. For example, though the federal government underpaid Ontario from 1995 to 1997, Ontario was overpaid by a much larger amount from 1990 to 1994, with associated interest savings.

INTEREST AND PENALTIES

According to the Ministry, the federal government has always been permitted to retain all non-tax revenues such as interest and penalties in exchange for assuming responsibility for bad debts.

However, the Ministry does not regularly receive the necessary information from the federal government to assess whether such an arrangement continues to be justified. In our view, the non-tax revenues have likely increased significantly in recent years for the following reasons:

- the more frequent and advanced employer remittance requirements have resulted in increased interest and penalty revenues;
- interest calculations have been changed from simple interest to daily compounded interest;
- outstanding accounts receivable on which interest is charged have increased significantly faster than the write-offs of bad debts; and
- interest rates charged on outstanding balances are now 2% higher than the rates paid on prepayments or refunds.

The Ministry estimates that the federal government's benefit of retaining non-tax revenues from Ontario taxpayers in excess of bad debts written off could exceed \$50 million per year. However, at the time of our audit, the federal government had not provided the Ministry with the necessary data to verify the actual amount of the benefit.

Recommendations

To assess whether the federal government's retention of non-tax revenues is equitable, the Ministry should periodically receive the necessary information about non-tax revenues and accounts written off in respect of Ontario personal income tax.

The Ministry should use this information to consider whether it is beneficial to renegotiate the terms of the Tax Collection Agreement as it pertains to the sharing of interest and penalties revenues.

Ministry Response

The Ministry agrees with the recommendations.

Over the past two years, the federal government has provided some data on non-tax revenues and accounts written off in respect of provincial income tax. However, this data has not been sufficient to properly evaluate whether the federal government's retention of non-tax revenues is equitable. The Ministry continues to pursue with the federal government the collection of better data and its receipt on a timely basis.

3.07

AUDITS OF PERSONAL INCOME TAX RETURNS

Taxpayers are liable for provincial or territorial personal income tax levied by the jurisdiction in which they declare their principal residence on December 31 of the tax year, regardless of where they lived or worked during the year.

Although Revenue Canada collects and otherwise administers Ontario's personal income tax on its behalf, ultimately the responsibility remains with the Ministry to satisfy itself that the overall audit procedures and controls in place meet its requirements, and are adequate to ensure that Ontario personal income tax is correctly determined and remitted in compliance with provincial legislation.

However, we found that the Ministry had very little input into or information from Revenue Canada about its audit procedures for the collection of Ontario personal income tax or its audit strategy, plans and coverage of Ontario-based taxpayer returns. For example, under the terms of the current Tax Collection Agreement, the Ministry cannot establish or negotiate requirements for such things as audit coverage, selection criteria or the nature of the audit work to be performed. As a result, the Ministry cannot assess whether Revenue Canada's efforts met its expectations or were adequate in these areas.

Similarly, Revenue Canada did not routinely provide the Ministry with information such as:

- the number or percentage of Ontario-based taxpayer returns audited or how that compared to other provinces, territories or the country as a whole;
- the types and income levels of taxpayers selected for audit or the reasons for their selection;
- special audit initiatives; and
- audit results.

It is Revenue Canada's view that when it audits a tax return for the completeness and accuracy of basic federal income tax, it is also satisfying the interests of the provinces and territories since their personal income tax is a function of basic federal tax.

We noted that the Tax Collection Agreement provides that the Minister or Deputy Minister of Finance can request that the Minister of National Revenue make available for examination by the province:

- any returns or other documents that relate solely both to the tax payable under the federal act and the tax payable under the provincial act in respect of any year during the term of the Agreement; and
- such other information with respect to assessments, collections and payments as the Minister of National Revenue deems advisable.

However, we were advised that the Ministry has not conducted its own audits of personal income tax returns because the federal government has not committed to issue the resulting reassessments, if any.

Recommendation

In order to obtain assurance that the declaration and payment of personal income taxes to which the Province is entitled are in the correct amount, the Ministry should:

- **establish minimum audit requirements and renegotiate the Tax Collection Agreement with the federal government to require Revenue Canada to meet the Ministry's requirements for such things as audit coverage, selection criteria and nature of the work to be performed; and**
- **obtain the necessary information from Revenue Canada to be able to assess whether it has met the Ministry's requirements.**

Ministry Response

As noted in the report, under the current Tax Collection Agreement the Ministry has no right to establish minimum audit requirements, nor to receive information to permit monitoring of Revenue Canada's performance in ensuring adequate compliance. The Ministry agrees that the recommendation has merit and will pursue it with the federal government.

TAX POLICY IMPLICATIONS

Although the Tax Collection Agreement between the federal government and the province has been beneficial to Ontario in a number of important respects, it also has imposed some significant restrictions on the Province. For example:

- By requiring that Ontario personal income tax be based on only one rate of basic federal income tax, changeable in multiples of one half of one percent, the Agreement has ensured that:
 - All changes to federal taxable income, tax credits or tax rates are automatically reflected in Ontario personal income tax irrespective of whether or not the province concurs with the changes. For example, the Ministry has estimated that the provisions of the 1999 federal budget will result in a decrease of about \$300 million in provincial personal income taxes for the province's 2000/01 fiscal year. We note that the province could compensate for such a decrease by increasing its own personal income tax rate, but may choose not to do so.

- Under the “tax on tax” structure required in the existing Agreement, Ontario cannot impose personal income taxes at variable rates other than as a fixed percentage of the variable rates inherent in the federal tax brackets. Instead it must rely on more complex and indirect measures, such as selective tax reduction programs, targeted tax credits and high-income surtaxes, to attempt to achieve its desired tax effects.

We were advised that the federal government has agreed in principle that for the year 2001 and later years, provinces in tax collection agreements may apply provincial tax brackets and rates to taxable income rather than to basic federal tax. This option will provide Ontario with the opportunity to establish tax brackets and rates of its own choosing.

- As previously noted, Ontario is essentially excluded from the decision making process with respect to its *Income Tax Act* enforcement and investigation strategies because those are the sole responsibility of the federal government, and all decisions of the Minister of National Revenue are final.
- Although not specifically detailed in the Agreement, in practice, Ontario must obtain the approval of the federal government for the implementation of Ontario-specific tax credits by Revenue Canada. In some cases federal approval has been denied. For example, we understand the federal government refused to administer a provincial tax credit for donations to the Crown in excess of 75% of a donor’s annual net income.

Recommendation

The Ministry should consider whether the benefits under the Tax Collection Agreement continue to outweigh the restrictions, and if considered advisable, renegotiate the Tax Collection Agreement in line with provincial interests.

Ministry Response

In formulating tax policy, the Ministry will continue to consider the benefits available under the Tax Collection Agreement and assess whether they exceed the restrictions imposed by that agreement. The Government has already indicated its desire to have a personal income tax system designed to meet Ontario-specific needs.

RELATED TAX CREDITS AND REDUCTIONS

PROPERTY AND SALES TAX CREDITS

The purpose of the Ontario refundable property and sales tax credits is to reduce the impact of municipal property tax and provincial sales tax on low to moderate income earners in Ontario.

Eligibility for the property tax credit is dependent on the amount of property tax paid, either directly to a municipality in Ontario or indirectly through rent, adjusted by the combined spousal net income in excess of minimum amounts. The basic sales tax credit is \$100 for each

individual over 16 years old; \$100 for his or her spouse; and \$50 for each dependent child under the age of 18 years. The combined maximum available credit is \$1,000 per year.

Claims for refundable tax credits are submitted to, and processed by, Revenue Canada as part of a taxpayer's annual income tax and benefit return. For the 1997 tax year, Revenue Canada processed 2.2 million claims for these tax credits having a total value of \$960 million. Although enforcement initiatives are also the responsibility of Revenue Canada, the Ministry has identified seven audit selection criteria to be used by Revenue Canada in selecting files for audit.

Revenue Canada recovers the estimated value of these credits from Ontario by deducting 24 equal installments from Ontario's personal income tax remittances between April and September of each year. Final adjustments are made as part of the regular provincial income tax settlement process in February of the second following year.

Revenue Canada charges Ontario a variable fee for the administration and enforcement of the property and sales tax credits, which is based on the per capita value of credits issued. This fee averages approximately \$8 million per year.

Our review of the audit process for property and sales tax credits noted the following concerns:

- Revenue Canada's audit coverage of property and sales tax credit claims was low, since the actual coverage was less than half of the desired amount.
- For the 1996 taxation year, Revenue Canada audited approximately 46,000 out of 197,000 claims that met at least one of the Ministry's seven selection criteria. Of the claims audited, 45% were either disqualified or reduced, resulting in \$5.7 million in recoveries for Ontario, or \$270 per claim. Audit results were similar in the prior year.

Based on these results, we estimated that if all claims meeting the Ministry's selection criteria were audited, an additional \$16 million per year would be recovered on behalf of the Province of Ontario.

- Revenue Canada did not randomly select any claims that did not meet the Ministry's selection criteria. As a result, the vast majority of claims processed were not subject to audit or review.

We also noted that, in addition to the above audits, Revenue Canada computer-matched the property and sales tax credit claims by spouses to determine whether there were duplicate claims. Approximately 1% of matched claims were found to be duplicates and were recovered on behalf of the province.

Although the Ministry would like Revenue Canada to audit more claims for the property and sales tax credits, Revenue Canada has not agreed to do so without additional compensation.

As a result of Revenue Canada's position, in 1993/94 the Ministry undertook a pilot project and itself audited an additional sample of approximately 9,900 property and sales tax credit claims for the 1991 taxation year, based on information provided by Revenue Canada. The Ministry identified a claims adjustment rate of 59% having a total value of about \$1.3 million, or seven times the cost of its effort. However, although Revenue Canada issued the necessary tax reassessments to recover the overpaid claims for that year, it refused to extend the project for other taxation years because, in its view, there was the potential for confusion to the taxpayer of having more than one tax administration.

Recommendations

In order to reduce the incidence of false or inaccurate claims, the Ministry should negotiate with Revenue Canada the audit coverage of property and sales tax credit claims to ensure that Revenue Canada annually audits more, if not all, of the claims meeting at least one of the Ministry's seven selection criteria.

In addition, the Ministry should request that Revenue Canada audit a random sample from the remaining tax credit claims processed to ensure that any claim may be subject to audit and so that the degree of overpayments can be assessed for the program as a whole.

Ministry Response

In the past, requests for increased audit coverage have been refused. With the inception of the Canada Customs and Revenue Agency (CCRA) later this year, such new programs may be available but at a cost. A cost/benefit analysis of increased audit coverage will be carried out.

A random sample is planned as part of the compliance program for the 1998 taxation year.

LABOUR SPONSORED INVESTMENT FUNDS

The Labour Sponsored Investment Fund (LSIF) program was originally established in 1991 under Ontario's *Labour Sponsored Venture Capital Corporations Act*, which was replaced by the *Community Small Business Investment Funds Act* in December 1997. The program provides a tax credit for investments in LSIFs, which in turn are encouraged to invest in Eligible Small Businesses (ESBs).

For 1998, the amount of the tax credit is 15% of the value of shares purchased, up to an annual maximum of \$5,000. This translates into a maximum provincial tax credit of \$750 plus an equivalent matching federal credit. The total value of LSIF tax credits allowed by the province in 1997, the most recently completed taxation year, was \$18 million. Revenue Canada processes the credit through the income tax system.

The Ministry of Finance is responsible for approving LSIFs and regularly auditing them and the ESBs in which they invest. For example, audits of LSIFs include ensuring that they comply with the investment requirements of the Act and that adequate internal controls are in place for the issuance of tax credit receipts.

The Ministry's goal is to audit each of the 17 active LSIFs at least once every two years, and an ESB when an initial investment is made with follow-up audit work whenever subsequent additional investments are made in the business.

We found that only seven audits of LSIFs have been completed by the Ministry in the last three years. Audits of the remaining 10 LSIFs were in various stages of completion. The Ministry's audit coverage of ESBs was also low. Of the 366 ESBs in which investments have been made

as at March 31, 1999, only 24 have had audits completed. Management informed us that audit coverage of LSIFs and ESBs was low due to a shortage of audit resources.

To help ensure that the tax credit is only provided to eligible taxpayers, the Ministry has also developed a computer matching procedure to identify potentially ineligible claims. This procedure involves comparing LSIFs' records of purchases of their shares with subsequent taxpayer claims for the related tax credit. We noted that the Ministry had experienced substantial problems in getting the matching procedure to work. This resulted in a delay in resolving 1,700 accounts with discrepancies, representing \$1.1 million in potentially ineligible claims for 1995, that caused them to become statute barred. In addition, there is a risk that 1,750 accounts, totalling \$715,000 in unmatched claims from the 1996 taxation year submitted to Revenue Canada, will also be uncollectible unless promptly acted upon by Revenue Canada.

Recommendation

In order to help ensure that Labour Sponsored Investment Funds and Eligible Small Businesses comply with the terms and conditions of the *Community Small Business Investment Funds Act*, the Ministry should increase its audit coverage to its target level. This would also permit excessive or ineligible claims to be identified, reassessed and collected on a timely basis.

Ministry Response

Four additional auditors were hired in early 1999. The Ministry anticipates that its audit targets will be achieved in the 1999/2000 fiscal year.

Revenue Canada has undertaken to conduct a review of the potentially ineligible 1996 accounts by October 1999. Any resulting reassessments will be issued well before statute-barred dates in the year 2000.

ONTARIO TAX REDUCTION

The purpose of the Ontario Tax Reduction is to reduce or eliminate Ontario personal income tax for low-income earners. For 1997, the basic reduction was \$171 and the additional amount for each dependent child and disabled dependant was \$334. The deduction must be claimed by the spouse with the higher income and is reduced or eliminated for taxpayers whose Ontario personal income tax payable is greater than the sum of the basic tax reduction and the amounts for dependants.

For the 1997 taxation year, Revenue Canada allowed approximately 1.1 million claims for Ontario tax reductions having a total value of \$208 million.

However, the Ministry was advised that starting in 1993 (the year in which the Child Tax Benefit replaced Family Allowance, non-refundable tax credits for children and the Child Tax Credit), Revenue Canada could not verify claims for dependent children for Ontario tax reduction purposes. As a result, there is no assurance that Ontario tax reductions are correctly determined and only provided to eligible individuals.

Recommendation

In order to help ensure that Ontario tax reductions are only provided to eligible individuals, and in the correct amount, the Ministry should negotiate minimum verification requirements with Revenue Canada so that it verifies, at least on a sample basis, claims for dependent children.

Ministry Response

The Ministry will explore with Revenue Canada various options to improve verification of Ontario tax reduction claims.

3.07

GUARANTEED ANNUAL INCOME SUPPLEMENT

The Province of Ontario makes direct payments under its Guaranteed Annual Income Supplement program (GAINS) to qualifying Ontario senior citizens whose income from all sources falls below the level guaranteed by the province (1998: \$11,784 single and \$19,484 a couple). For the fiscal year ending March 31, 1998, approximately 108,700 recipients received provincial GAINS benefits totalling \$82 million. The monthly payment ranged between \$2.50 and \$83 per recipient.

Seniors are only eligible for the provincial supplement if they receive federal Old Age Security (OAS) payments and Guaranteed Income Supplement (GIS), have been a permanent resident of Ontario for the past 12 months, and have total income from all sources below the level guaranteed by the Province.

Eligibility for provincial GAINS benefits is determined primarily by an individual's eligibility for federal OAS and GIS. The federal government provides information on eligible individuals on a monthly basis to the Ministry to update its GAINS payment system.

We reviewed controls over several aspects of the GAINS program, including tests on the computerized master file for conditions that should not exist, such as checking that payments were not made in the following month to GAINS recipients who had died during 1997, and that monthly payments did not exceed the maximum amount payable. We also reviewed controls over accounts receivable, write-off procedures and the protection of data from unauthorized access.

We found that controls were adequate.

Cancer Care Ontario

Cancer Care Ontario (CCO) was established in April 1997 to integrate cancer services throughout the province. CCO assumed the operations of the Ontario Cancer Treatment and Research Foundation, which had been established under the *Cancer Act* to conduct a program of research, diagnosis and treatment of cancer, including:

- the establishment, maintenance and operation of research, diagnostic and treatment centres;
- the laboratory and clinical investigation of cancer problems;
- the adequate reporting of cases and the recording and compilation of data;
- the education of the public in the importance of early recognition and treatment; and
- the training of technical personnel.

CCO's primary task is "to ensure that people in Ontario continue to receive high-quality cancer treatment." CCO also aims to reduce the number of people affected by cancer in the future by increasing prevention and screening efforts. In addition, CCO advises the Ministry of Health on cancer issues.

CCO's operations include eight regional cancer centres, the Ontario Breast Screening Program and the Ontario Cancer Registry. Ministry statistics indicate that CCO provides approximately 75% of the radiation treatment in Ontario. The remaining 25% is provided by the Princess Margaret Hospital site of The Toronto Hospital.

To organize CCO's activities and to prevent unnecessary duplication of services and programs, regional cancer networks are being established to plan and coordinate all cancer services in their regions. This includes the work of voluntary and community-based groups, agencies, health professionals and institutions that provide cancer control services. The eight regional cancer centres and their respective host hospitals will act as the hubs for the regional cancer care delivery system.

During the 1998/99 fiscal year, CCO had expenditures totalling approximately \$209 million, of which \$173 million was funded by the Ministry of Health. The remaining \$36 million was generated from donations, bequests, investment income and other sources.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of Cancer Care Ontario were to assess whether:

- adequate policies and procedures were in place to ensure individuals receive high-quality cancer services; and
- adequate procedures were in place for managing CCO's financial, human and physical resources.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of the audit, we identified the audit criteria we would use to address our audit objectives. These were reviewed and accepted by senior management of CCO.

Our audit focused on both CCO's head office operations and the activities at a sample of regional cancer centres. The fieldwork for this audit was primarily conducted from February to September 1998. We reviewed and, where warranted, relied on work completed by CCO's internal auditor.

OVERALL AUDIT CONCLUSIONS

To help ensure that people in Ontario receive high-quality cancer care, the Ministry needs to clarify CCO's role and powers and the Ministry's expectations regarding CCO's administration through the establishment of a Memorandum of Understanding.

CCO needs to better ensure that individuals receive high-quality cancer services and that the provision of cancer care in Ontario operates as an integrated system. In particular, we noted that:

- Only 32% of patients requiring radiation therapy received it within the recommended four weeks from referral.
- A long-range plan that integrates radiation equipment and staffing requirements was needed to address the needs of patients.
- The Ontario Breast Screening Program had insufficient mechanisms to monitor whether screening centres were meeting required performance standards and to ensure that high-risk women were identified for screening.
- CCO lacked authority to collect certain medical information needed for planning, implementing and evaluating cancer detection and control.
- CCO's head office needed to better coordinate the reporting of quality assurance activities by regional cancer centres.

While CCO generally managed its resources adequately, improvements were still needed. We found that:

-
- The approval and monitoring of research projects varied among regional cancer centres.
 - Potential conflicts of interest needed to be resolved prior to awarding contracts.
 - Controls over the acquisition and monitoring of services provided by smaller consulting firms were insufficient.
 - Cancer Care International was not managed with due regard for economy.

In making our recommendations, we were aware that CCO was in the process of implementing and developing a number of initiatives which are intended to improve the provision of cancer services, including: the development of clinical practice guidelines; the provision of more community-based radiation oncology consultations; and the development of new prevention programs. In addition, CCO has implemented activity-level reporting, which enables it to compare levels and costs of services among regional cancer centres.

DETAILED AUDIT OBSERVATIONS

ACCOUNTABILITY

Legislative authority for the Ontario Cancer Treatment and Research Foundation (OCTRF) was established in Part 1 of the *Cancer Act*, 1957. CCO operates under the same legislation.

With the increasing emphasis on cancer prevention and screening, CCO's role is significantly different from that of the OCTRF. Accordingly, revised legislation is needed to define CCO's objectives, responsibilities and powers as well as the relationship between CCO and the Ministry of Health. At the end of our audit, we were informed that meetings had been held between the Ministry and CCO to discuss revised legislation.

Management Board of Cabinet directives require that operational agencies, which included the OCTRF, must, at least once every five years, prepare a Memorandum of Understanding between the chairperson of the agency and the minister responsible. All memoranda must be approved by Management Board of Cabinet. Areas to be covered include:

- the roles of the minister and the agency head;
- the accountability relationship;
- financial and administrative arrangements;
- reporting requirements; and
- the extent to which specific Management Board directives apply to the agency.

Neither CCO nor OCTRF had a Memorandum of Understanding with the Ministry of Health. The Ministry and CCO have met to discuss establishing a Memorandum of Understanding but, at the time of our audit, had not reached an agreement.

Recommendation

To clarify Cancer Care Ontario's (CCO's) role and responsibilities and the Ministry's expectations regarding CCO's administration, the Ministry should expedite:

- revisions to the *Cancer Act*; and
- the establishment of a Memorandum of Understanding with CCO.

Ministry Response

In February 1999, the Ministry and CCO initiated a series of meetings to develop a Memorandum of Understanding. These meetings resulted in a final draft Memorandum satisfactory to CCO. It is anticipated that the Memorandum will be finalized in the second quarter, 1999/2000.

After the Memorandum of Understanding with CCO is finalized, the Ministry will begin the process of revising the Cancer Act.

TREATMENT

RADIATION THERAPY

Radiation treatment in Ontario is provided at CCO's eight regional cancer centres (RCCs) and at the Princess Margaret Hospital site of The Toronto Hospital. In the 1998/99 fiscal year, approximately 336,000 radiation treatments were provided at the eight RCCs (in the 1997/98 fiscal year, 320,000 treatments were provided). Radiation treatments represent about one third of CCO's total operating budget, with total expenditures of \$50.5 million in the 1998/99 fiscal year.

Timely access to care requires a sufficient number of oncologists at the cancer centers to provide consultations and prescribe treatments, and sufficient radiation machines and staff to operate these machines.

PATIENT WAITING TIMES FOR RADIATION TREATMENT

Radiation oncologists provide consultations and prescribe treatment, radiation therapists deliver the treatment and physicists maintain radiation equipment. At the time of our audit, CCO did not have staffing standards in place for any of these positions. CCO's 1998 Strategic Plan for the Radiation Treatment Program included recommendations that a workload standard for radiation oncology be determined and that appropriate staffing standards for radiation therapists and medical physicists be reviewed and endorsed.

All three RCCs we visited prioritized patients into categories for timing of treatment. Patients needing emergency treatment received same-day radiation treatment. While there are few evidence-based studies on acceptable waiting times from surgery to radiation treatment, the Committee on Standards of the Canadian Association of Radiation Oncologists recommends that the time between patient referral and initiation of radiation treatment not exceed four weeks. At the end of our audit, we were advised that CCO's head office had set a target for

the RCCs to achieve, by March 31, 2000, 50% of cases moving from referral to treatment within four weeks and 90% within eight weeks.

CCO prepares reports on the length of patient waiting times from the time of a patient's referral to the RCC to the beginning of treatment. In 1998, only 32% of patients were treated within four weeks. The percentages at individual RCCs ranged from 24% to 40%.

CCO senior management informed us that maximum desirable waiting times vary, depending on the type of cancer. However, the standard of four weeks was being used because they did not know whether exceeding four weeks would compromise care. The Canadian Association of Radiologists generally endorses breast irradiation "as soon as possible after surgery and not later than twelve weeks after."

To help reduce waiting times, CCO's 1998 Strategic Plan for the Radiation Treatment Program recommended that the daily operating hours for radiation equipment at RCCs be increased to 10 hours at small centers and 12 hours at large centers. This would make better use of available treatment equipment capacity. CCO estimated that, if implemented, the savings from extending hours rather than adding new equipment would be \$99 million between 1998 and 2006.

The Strategic Plan also recommended that either the proposed Peel or Durham cancer centre open in 2005 and the other in 2008. In addition, a new cancer centre was recommended for the London/Hamilton region by 2002. However, based on the recommendations of the Health Services Restructuring Commission, all three centres are planned to be opened by 2002.

In its 1998/99 operating plan, CCO advised the Ministry, "If treatment capacity is not expanded, waiting times for consultation and treatment will increase significantly and at a very early time." We were informed that CCO expected a shortage of radiation oncologists in Ontario within the next few years. Shortages of radiation therapists and physicists were also expected. Adding new centres and equipment and extending hours of operation will increase the need for trained staff. At the time of our audit, plans in place to address the anticipated shortage of qualified staff were limited to radiation therapists.

In December 1998, the Minister of Health established a Task Force on Human Resources for Radiation Services. The purpose of the Task Force was to identify immediate and long-term human resource requirements and to make recommendations on how to meet those requirements. A report was issued to the Minister in February 1999. The report stated that the delays in accessing radiation treatment services, "which can compromise quality of care, result from an insufficiency in the availability of those professionals involved in the delivery of radiation treatment." The report included a number of recommendations to address the need for additional professional staff based on staffing ratios determined by the Task Force.

Historically, each RCC has determined its own radiation therapy equipment requirements using factors such as the increasing incidence of cancer due to an aging population; increased referrals for treatment due to more community outreach programs; new and more complicated treatment techniques; and aging radiation equipment. Between 1990 and 1997, CCO invested \$118 million in radiation equipment.

In June 1998, CCO developed a model for the replacement and funding of radiotherapy equipment for Ontario. The model projects that each year six or seven radiation therapy machines will require replacement and that an additional three to five new radiation machines

will be required to address the increasing patient load. CCO estimated the cost to meet this need at \$22 million to \$30 million per year.

Recommendation

To ensure patients' access to radiation therapy is improved, Cancer Care Ontario (CCO), in conjunction with the Ministry, should develop and implement a long-range planning and funding process that integrates equipment and staffing requirements for radiation therapy.

Agency Response

The Minister has accepted the recommendations of the Task Force on Human Resources for Radiation Services and has stated that resources will be made available to implement these recommendations. Further, the acceptance by the Ministry of both workload standards and cost-per-case funding of radiation services will allow CCO to implement a long-range approach to the staffing and equipment needs of radiation facilities.

CCO has completed a comprehensive review of radiation treatment equipment requirements for each of its regional cancer centres over the next decade (including new centres in Durham, Peel and Kitchener). This review, which encompasses both replacement and new radiation treatment equipment, has been submitted to the Ministry.

RADIATION EQUIPMENT AVAILABILITY

Radiation treatment is primarily delivered by cobalt machines, which produce low-energy radiation, and linear accelerators, which produce low- to high-energy radiation. Linear accelerators deliver more uniformly intense radiation, but are more than three times as costly to operate as cobalt machines. At three RCCs, we reviewed the percentage of radiation treatments on cobalt machines for two of the most common cancers.

**Percentage of Radiation Treatments on Cobalt Machines
During the 1997/98 Fiscal Year**

Disease Site	Centre 1	Centre 2	Centre 3
Breast	16%	34%	64%
Lung	11%	30%	49%

Source: Cancer Care Ontario data

Centre 1, which had the lowest percentage of cobalt-treated patients, had the capacity to use either cobalt machines or linear accelerators. On the other hand, Centre 3 was already using its linear accelerators for extended hours and was referring some patients to another RCC. CCO

advised the Ministry that, due to the mix of treatment machines at Centre 3, some patients who would benefit from high-energy linear accelerator treatments were being treated on medium-energy machines. As well, some patients who would be better treated at medium energy were being treated with cobalt. CCO stated, "This distribution results in two types of hazards: jeopardization of cure rates and increased normal tissue toxicity."

Recommendation

To help ensure the best outcomes for patients from radiation treatment, Cancer Care Ontario (CCO), in conjunction with the Ministry, should implement a plan that provides the most effective radiation treatment equipment for patients.

Agency Response

Providing the most effective radiation treatment equipment requires that the most effective equipment is purchased and upgraded as necessary. Although there is a very effective process for identifying and funding the most effective equipment at the time of initial purchase, there is not an easily accessible method for funding equipment upgrades. While upgrades do not always have easily demonstrable patient benefits, improvements in quality and accuracy can only have a positive impact on patient care. The need for a more rigorous system for evaluating and demonstrating these benefits will be addressed.

Ministry Response

The Ministry supports the intent of the recommendation. As CCO is the primary advisor to the Ministry on cancer issues, the Ministry will request that CCO submit both a business and an implementation plan for the ongoing replacement of radiation equipment. The plan will include the type of equipment needed, the site, the cost in Canadian dollars and the date required.

CLINIC WAITING LISTS

Patients referred to an RCC must initially be seen by an oncologist, who determines the appropriate treatment. Referred patients are generally assigned the first available appointment. However, if there is a long wait for an appointment, appropriate action is taken by RCC staff. For example:

- The definition of a long wait for an appointment varied from two weeks to one month at the RCCs we visited. At one RCC, program heads were notified weekly of all waits greater than two weeks.

- One RCC used “managed” waiting lists for patients with certain types of cancer, whereby appointments were based on patient priorities. We were informed that waits for clinic appointments for these patients ranged from six to eight weeks. However, higher priority patients would be seen as soon as medically required.

In general, waiting times from patient referral to initial clinic appointment were not formally tracked at the RCCs we visited. One RCC did track the time patients waited for appointments if the patient was referred to a medical or radiation oncologist. At the time of our audit, waiting times for patients to see a medical oncologist at this RCC varied from one day for lung cancer to 16 days for melanoma. Waiting times to see a radiation oncologist ranged from two days for central nervous system cancer to 69 days for breast cancer.

In the 1997/98 fiscal year, the number of patients treated by radiation was approximately 10% greater than the number treated using chemotherapy. CCO’s head office has introduced a monthly retrospective report which compares the waiting times to see a radiation oncologist at all RCCs. However, there was no similar report for medical oncologists. RCC satellite clinics maintained their own waiting lists for appointments. We were informed that the waiting times to access satellite clinics were not included in the RCC data on waiting times.

Recommendation

To help ensure that all cancer patients receive care within the recommended timeframe, Cancer Care Ontario (CCO) should:

- establish standards for waiting times from patient referral to initial clinic appointment; and
- ensure that patient waiting times for all types of clinic appointments are tracked and appropriately followed up.

Agency Response

Standards for waiting times and a monthly retrospective report of waiting times to see a radiation oncologist are now in place at all regional cancer centres.

We now have in place a similar program for patients receiving systemic treatment that records the wait time from the date of the phone call or written request for consultation to the time of the actual consultation. This program is now available by centre for all disease sites combined and for selected specific disease sites and will be an indicator for our quality assurance program. To date, there is no national or provincial standard for systemic treatment wait times. CCO plans to address this issue.

PRACTICE GUIDELINES

Practice guidelines are developed to assist doctors in making decisions about the treatment of their patients. Following these guidelines better ensures consistency of treatment, improves health outcomes and reduces unnecessary costs to the health care system.

In 1993, CCO's predecessor established a practice guidelines initiative for the development of clinical practice guidelines. Using an established framework, preliminary guidelines are developed and then sent to a sample of doctors for feedback. Finalized guidelines are published in the *Canadian Journal of Oncology* and are also available on CCO's website. At the time of our audit, 16 guidelines had been completed and another 49 were in various stages of development. In January 1998, a process was proposed for reviewing and updating guidelines.

Further research is required to determine the best strategies for disseminating the guidelines, for determining whether they are being followed and for evaluating their impact on patient quality of life and survival. CCO had entered into an agreement with the Institute for Clinical Evaluative Sciences to review the effect of the guidelines on surgical practice.

Where provincial guidelines are lacking, CCO recommends that RCCs develop their own interim policies and protocols. We found that these interim measures were not always consistent among RCCs. For example, at one RCC, breast cancer patients received 25 radiation treatments while at another RCC patients received 16 treatments. We understand that CCO has conducted clinical trials on the optimal number of treatments; however, the results will not be known for a number of years.

Recommendations

Cancer Care Ontario (CCO) should periodically assess the usage and effectiveness of its practice guidelines and take corrective action where warranted.

To reduce duplication of effort by regional cancer centres (RCCs) and to better ensure consistent patient treatment, CCO should consider having RCCs jointly develop interim practice guidelines.

Agency Response

Plans have been initiated to assess the impact of guidelines. A joint program between the Institute of Clinical Evaluative Sciences and the Program in Evidence-based Care, funded by the Ministry, has begun research into outcomes to link patterns of practice in Ontario with the release of guidelines. The joint program has adopted the principle that audits of medical records should be incorporated into the review of patterns of practice and consistency with guidelines.

With respect to "corrective action," it would be premature to conclude that discordance between clinical practice and guidelines is necessarily an issue of correction per se. The reasons for such differences need to be explored.

We agree that confusion around variations in practice in Ontario would be usefully addressed by having the regions adopt a cooperative model in developing management policies or protocols that could be shared. CCO has already begun to address this problem through the Medical Oncology Professional Advisory Committee. The policies for colorectal cancer are now complete.

DRUG FORMULARY

Systemic therapy is the use of drugs, including chemotherapy, hormones and immunotherapy, in the treatment of cancer.

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In 1995, CCO's Task Force To Review Systemic Therapy at Regional Cancer Centres reported that "a provincial formulary will provide the information required by physicians to assist them in selecting the least costly regimen from those of similar benefit." The report also stated that accurate costing for the delivery of drugs by treatment regimen should be implemented. The Task Force recommended that a provincial formulary of chemotherapy regimens, including resource utilization, be implemented.

In February 1998, the Systemic Therapy Advisory Committee stated that "comparisons should be able to determine which of several drugs is more cost effective to treat a particular stage of disease." The Committee identified the need for information on the costs of drugs and other resources required to treat each type of cancer. The factors to be included were hospital admissions, toxicity of drugs and probability of survival.

Internal correspondence at CCO indicated that a provincial formulary would standardize chemotherapy protocols and regimens across CCO, reduce duplication and overlap and identify the most cost-effective protocol for a given type and stage of cancer. One RCC we visited had its own formulary, and another had a list of drug regimens that had been tailored to that RCC.

At the time of our audit, we were informed that a provincial formulary listing all treatment regimens in use was being implemented. However, it did not include information on which drugs are more cost effective for treating particular stages of cancer, as recommended by the Systemic Therapy Advisory Committee.

Recommendation

To encourage the use of equally effective but less costly treatment regimens, Cancer Care Ontario should identify the most cost-effective drug regimens for treating different types of cancer and make this information available to medical practitioners prescribing cancer treatment.

Agency Response

The development of the provincial drug formulary is nearing completion. Costs of the various regimens will be included. In addition to drug costs, one also has to consider the costs associated with the administration of the drug and the frequency of administration. For example, an expensive drug given once every three or four weeks may be more cost effective than a protocol using a much cheaper drug which is administered five days each month. The Systemic Therapy Advisory Committee, with the help of a health economist, is addressing these issues.

SCREENING PROGRAMS

The purpose of screening is the early detection of cancer in people without any symptoms. For screening to be effective, a cancer must be found early, before it spreads. CCO supports four cancer screening programs: breast, cervical, colorectal and genetic. Currently, population-based screening programs are used for breast cancer, because tumors can be detected early, and cancer of the cervix, because precancerous changes can be detected. The Ontario Breast Screening and Cervical Screening programs are province-wide initiatives funded by the Ministry of Health and administered and operated by CCO.

Breast and cervical screening programs are considered cost effective because the costs of screening appropriate segments of the population and treating cancer in early stages are generally less than the health care costs associated with treating advanced cancers. Colorectal and genetic screening programs are currently in the preliminary stages of development.

ONTARIO BREAST SCREENING PROGRAM

The Ontario Breast Screening Program (OBSP) was established in 1990 to reduce mortality from breast cancer through early detection. To accomplish this goal, the OBSP provides mammograms at nine CCO-operated screening centres, 29 affiliated sites and one mobile unit. The OBSP is operated under an agreement between CCO and the Ministry of Health. The OBSP's target population is women 50 to 69 years of age with no current symptoms of breast cancer. CCO estimated that in 1997 there were approximately one million women in the OBSP's target population.

The suggested screening period for the majority of women is once every two years, although some higher risk women are rescreened annually. During the 1998/99 fiscal year, the costs of providing these services totalled approximately \$14.7 million.

INFORMATION AND DATA COLLECTION

The OBSP's goal is to screen 70% of the target population once every two years by 2001. However, the OBSP's ability to determine whether it is achieving its goal is limited because:

- Women in Ontario can be screened (obtain a mammogram) either at an OBSP facility or through a physician referral to a non-OBSP facility. The vast majority of mammograms performed in Ontario in 1997 were performed at non-OBSP facilities. The cost of these mammograms is covered by the Ontario Health Insurance Plan on a fee-for-service basis.

Due to the confidentiality of medical records, the OBSP does not receive information on women who have had non-OBSP mammograms. Accordingly, for the target population, the OBSP cannot determine:

- the number of women who have had mammograms in the last two years at facilities outside the OBSP;
 - which women outside of the OBSP have not been rescreened in the last two years;
 - which women are high risk; and
 - which women have never been screened.
- CCO's head office does not regularly track the timeliness of rescreens. The OBSP distinguishes only between initial screens and rescreens, regardless of the length of time between them.

For 1997, the OBSP's provincial participation rate was estimated to be only 13% of the target population. However, without information on the number of screens performed on the OBSP's target population at non-OBSP facilities, CCO is not in a position to plan an effective strategy to meet changing needs across the province.

Recommendation

To assist Cancer Care Ontario (CCO) in developing a strategy to achieve coverage targets for the Ontario Breast Screening Program (OBSP), the Ministry should examine ways of making available the mammography information it maintains on the OBSP's target population.

Ministry Response

The Ministry is committed to working with CCO to develop and implement strategies to increase the participation of women in the age group 50 to 69. The Ministry invites CCO to submit a proposal regarding information that would assist it in enhancing the OBSP's acceptance by the target group of women.

EFFECTIVENESS MEASURES

By reaching a participation rate of 70% of the women in its target group, the OBSP expects to be able to reduce mortality from breast cancer by 30%. Randomized, controlled trials have shown that a screening program can have an impact on mortality 4 to 10 years after its introduction.

At the time of our audit, CCO was evaluating parts of its screening programs and comparing the results to those of other jurisdictions and to recognized standards. In December 1997, it issued the first in-depth report on the activities and accomplishments of the OBSP. The report covered the period from 1990 to 1997 and included statistical data such as referral rates. These results were compared to other screening programs and to recognized standards.

Since mortality reduction is the key objective of this program, we considered whether the OBSP would be in a position to measure its effectiveness in this area. A screening program's success in detecting cancer at an early stage is one of the main factors in achieving a reduction in mortality. The evaluation of the stage at which cancers are detected is a common method for monitoring the effectiveness of screening programs. The OBSP's ability to measure its effect on mortality is limited because the information required for a proper evaluation is only partially available from the OBSP's database. For example, while cancer stage is defined by a number of specific characteristics, the OBSP did not have complete data for any of these characteristics. In its 1998 five-year review of the program, the OBSP recognized the need for more complete data.

In addition, it is difficult to measure the OBSP's effect on mortality since many other factors can lead to a reduction. Accordingly, CCO is considering the use of alternative indicators of the OBSP's effectiveness.

Recommendation

Cancer Care Ontario should enhance its data collection systems to enable it to assess the effectiveness of the Ontario Breast Screening Program (OBSP).

Agency Response

The recommendation is accepted. The OBSP will continue to work to improve its capacity to collect and analyze information relevant to the effectiveness of the program. The OBSP cannot measure its impact on mortality directly and must rely on measures of program quality and effectiveness.

CANCERS MISSED AT SCREENING

The earlier a cancer is detected, the greater the likelihood of a positive outcome for the patient. Detectable cancers that are missed by the screening process are a serious risk.

If breast cancer is discovered prior to a woman's next screen, a panel of three independent radiologists reviews the initial mammogram to determine whether an abnormality was missed. If a majority of the radiologists detect an abnormality on the mammogram, the result is classified as "missed at screening." CCO records indicated that 53 of the 231 screens reviewed by panels during the past six years were determined to be cancers that were missed at screening.

Where possible, the OBSP informed radiologists when women they had screened were diagnosed with cancer. However, neither the radiologist who initially misread the film nor the regional radiology coordinator was informed of the panel's conclusions.

The OBSP did not monitor the source of cancers missed at screening, either by site or responsible radiologist. At the time of our audit, the OBSP was not identifying and matching radiologists who worked at more than one facility. This information would assist the OBSP in

identifying patterns of cancers missed at screening so that it could take corrective action to reduce the frequency of such occurrences.

Recommendation

To improve the effectiveness of the Ontario Breast Screening Program (OBSP), Cancer Care Ontario should:

- **develop protocols for informing radiologists and radiology coordinators of the results of radiological panel reviews; and**
- **monitor cancers missed at screening by site and responsible radiologist and take appropriate follow-up or corrective action.**

Agency Response

The recommendation is accepted. The OBSP has recently hired a new Radiologist-in-Chief to strengthen its capacity to monitor and improve radiological quality.

STANDARDS AND GUIDELINES

Under the terms of its OBSP agreement with the Ministry of Health, CCO is responsible for developing provincial standards and guidelines for the OBSP.

Generally, breast-screening programs are evaluated using standard measures developed from the findings of other screening programs and from randomized, controlled trials. Standards include cancer detection rates, patient referral rates and expected characteristics, such as stage of detected cancers. Although most of this information was available on OBSP's database, CCO did not routinely use it to identify differences in regional performance or instances where regions had not met provincial goals. We also noted that the completeness of information from different regions varied because information is provided on a voluntary basis. For example, completeness for one type of information ranged from 63% in one region to 93% in another region.

In addition, more frequent OBSP screening of women at greater risk of developing breast cancer could ensure earlier detection and reduce the number of cancers that are detected by other, less timely means. CCO's head office reviewed regional practices of recalling women for rescreening after one year rather than the usual two-year period. For the 17 sites operating in 1996, CCO found that one-year recall rates ranged from 3% to 14% of women screened. Although CCO had not determined the reasons for these variances, explanations included the lack of consistent definitions of high-risk women.

Recommendation

To help ensure that breast screening centres are delivering services in a consistent and effective manner, Cancer Care Ontario (CCO) should:

- monitor the performance of screening centres and, where standards are not being met, investigate and take corrective action as necessary; and
- develop mechanisms to ensure that high-risk women are identified for screening.

Agency Response

The recommendation is accepted. The Ontario Breast Screening Program is committed to strengthening its capacity for quality assurance and quality control at its screening sites. CCO will conduct a review of its guidelines for screening high-risk women in 1999.

INTERVAL BREAST CANCERS

In a 1998 study that reviewed screening results from 1990 to 1995, CCO generally concluded that the OBSP had achieved the standards suggested by other studies and programs. One measure used was the prevalence of interval cancers, which are cancers discovered between screenings. While the number of interval cancers expected to be identified is relatively small, it is a relevant indicator of quality assurance.

The study found that the rate of interval cancers diagnosed within one year of screening was 0.25 per 1,000 women screened. This rate is one of the lowest among the jurisdictions we reviewed, including two other Canadian provinces, where rates ranged from 0.25 to 1.2 per 1,000 women screened.

During our review of these rates, we noted the following:

- The OBSP attributed its low rate of interval cancers partially to the use of clinical breast exams during screening. In addition to two-view mammograms, all OBSP sites were required to provide clinical breast exams by a trained nurse. The study concluded that without the additional cancers detected by the clinical breast exams, the interval cancer results would have been 0.64 per 1,000 women screened.

While the majority of affiliated sites continue to have a nurse perform clinical breast exams, as of April 1998, it was no longer required by the OBSP. This may affect interval cancer rates in future years. However, CCO management believes that it will enable the OBSP to increase the number of affiliated centres and reduce the number of unnecessary referrals.

- Our review of OBSP data indicated that CCO had data on some interval cancers that were not considered in the study of interval cancer rates for women who had been screened by the OBSP. At the time of our audit, CCO was in the process of analyzing the effect the additional data would have on the results of its study. However, we calculated that if those cancers had been included in the study, the rate for interval cancers detected would increase.

Recommendation

To help ensure that Ontario Breast Screening Program (OBSP) outcomes are reported as accurately as possible and that those outcomes remain within acceptable standards, Cancer Care Ontario (CCO) should:

- ensure that all relevant CCO data are included when calculating OBSP interval cancer rates; and
- assess the impact of clinical breast exams on interval cancer rates.

Agency Response

The recommendation is accepted. The OBSP is working closely with the Ontario Cancer Registry to ensure that all interval cancers are included in its analyses. OBSP will monitor closely the impact on interval cancer rates of clinical breast examination as an adjunct to mammography.

CERVICAL SCREENING PROGRAM

The goal of the Cervical Screening Program is to reduce the mortality rate from cervical cancer by increasing early detection of pre-cancerous conditions. One objective is to decrease mortality from cervical cancer by increasing the proportion of women screened according to the guidelines of the Ontario Cervical Cancer Screening Group.

Cervical screening (Pap smear testing) was introduced in the 1960s and is primarily performed by physicians as part of a woman's checkup and is paid for on a fee-for-service basis by the Ontario Health Insurance Plan. The procedure can detect pre-cancerous conditions and can thereby reduce the incidence of, as well as mortality from, cervical cancer. For the 1998/99 fiscal year, the Ministry provided \$1.7 million for the development of a cervical screening database and program operating costs.

In 1993, the Ontario Cancer Treatment and Research Foundation, the Ministry of Health and representatives from organizations involved in cervical screening activities formed the Ontario Cervical Screening Collaborative Group to develop, circulate and evaluate policies and recommendations related to a cervical screening program.

The Collaborative Group's objective is to reduce the incidence of and mortality from cervical cancer by 50% between 1993 and 2005.

The Collaborative Group recognized that an organized cervical screening program was needed to achieve the desired reduction in cervical cancer. In 1997, it decided to develop a computerized cervical screening database to enable it to measure program effectiveness.

In 1995, a non-profit corporation formed by six private laboratories developed a centralized database for information on cervical screens. To establish the database, the six participating laboratories contributed patient diagnostic data from the cervical screening tests they performed.

The initial purpose of the database was to provide physicians with access to women's cervical screening histories to help them:

- properly interpret Pap smears;
- make informed recommendations for the follow-up of abnormalities;
- ensure detected abnormalities have been appropriately followed up; and
- ensure the timely scheduling of women for subsequent tests.

In December 1997, CCO and the non-profit corporation entered into a partnership to maintain and operate the database. However, its effectiveness has been limited due to incomplete data. For the 1997 year, only approximately 50% of the estimated 1.5 million Pap smears taken in Ontario were registered on the database. This can be attributed to the following:

- Reporting information on Pap smears is voluntary.
- Some laboratories are either not computerized or have computerized data that is incompatible with the database.
- Tests are performed in hospital laboratories, which cannot release their results due to restrictions contained in the *Public Hospitals Act*.

If the database was fully implemented and included information on all women screened over a period of years, CCO would be better able:

- to develop an effective process to help ensure all women in the target population are screened;
- to monitor whether women are being rescreened on a timely basis;
- to develop a program to monitor the quality of screening tests, including follow-ups with physicians who have regularly performed unsatisfactory Pap smear tests;
- to institute a program to monitor physician adherence to the Collaborative Group's recommendations on appropriate follow-up procedures, including the treatment of abnormalities; and
- to develop procedures to monitor and evaluate the Cervical Screening Program.

CCO estimates that to achieve the Collaborative Group's goal of reducing the incidence of and mortality from cervical cancer by 50% by 2005, complete data on women screened in the province must be brought into the database by the year 2000. Experts have also stated that if the database is successfully implemented, including full target-population screening and rescreening, the rescreening of women with three consecutive annual negative Pap smear results could be increased from two to three years, thus reducing health care costs.

Recommendation

To enable Cancer Care Ontario (CCO) to develop a more effective cervical screening program and to be in a position to better monitor the achievement of objectives, the Ministry should:

- facilitate access to appropriate cervical screening information; and
- develop protocols to use data for statistical purposes while safeguarding the privacy of patient information, including information received from private laboratories.

Ministry Response

The Ministry is currently reviewing a draft agreement with CCO and its private sector partners to ensure that patient confidentiality is protected in the collection, use and disclosure of data for statistical purposes. At the request of CCO, the Ministry is reviewing options to facilitate the collection of cervical data from hospital laboratories. This review is expected to be completed in the second quarter of 1999/2000.

QUALITY ASSURANCE

CCO uses various methods to monitor how effectively it is achieving its mission and objectives. These include accreditation by the Canadian Council on Health Services Accreditation; performance reviews of the chief operating officers of the RCCs; and the tracking of treatment statistics. CCO's senior management visits the RCCs periodically to discuss operations and issues with RCC management.

In 1995, the Canadian Council on Health Services Accreditation reviewed the head office of the Ontario Cancer Treatment and Research Foundation (OCTRF). The Council reported that "while all cancer centres surveyed showed evidence of quality improvement programs, the reporting and coordination of these activities at the provincial level has not been adequately demonstrated." The report noted that CCO had plans in place to address this issue.

In May 1996, the OCTRF's board of directors approved terms of reference for a Quality Improvement and Ethics Committee. This Committee's assigned responsibilities included:

- ensuring the development and maintenance of an integrated program of quality improvement, utilization and risk management, including the identification of standardized quality indicators; and
- reviewing accreditation surveys and other external sources and ensuring that any deficiencies noted are adequately addressed.

We found that the quality improvement activities at the three RCCs we visited varied widely. For example, one RCC stated that having formal processes for a quality improvement program, as well as reviewing and improving activities, were key to that RCC's future. Another RCC had a variety of quality improvement projects underway. However, we found little indication of quality improvement activities being coordinated at the provincial level among RCCs. For example, while one RCC had developed a patient satisfaction

questionnaire that was also used by another RCC, the third RCC had developed its own survey.

In May 1998, CCO held its first workshop for staff on developing provincial performance indicators applicable to all RCCs. CCO intends to implement one or two indicators in 1999, with others to follow.

Recommendation

To enable it to ensure the delivery of high-quality cancer care in Ontario and to identify and act on significant variances among regional cancer centers (RCCs), Cancer Care Ontario (CCO) should:

- expedite the development of performance indicators and coordinate RCC quality improvement activities;
- ensure that all RCCs consistently report quality improvement activities; and
- take timely corrective action as necessary.

Agency Response

The development of performance indicators and the assessment of the extent to which RCCs achieve performance targets are very high priorities for CCO. The board's Quality of Care and Ethics Committee has responsibility for overseeing this process. At the management level, a quality working group has been established with responsibility for the elaboration of provincial quality indicators and for the ongoing assessment of the extent of RCC adherence to these indicators. This group will be assigned the staff support and access to information systems required to achieve its objective.

CANCER PREVENTION

Prevention means eliminating the causes of cancer. Primary prevention is the main focus of cancer control for cancers that have known, modifiable risk factors. Such cancers include lung cancer (risk factor: smoking) and skin cancer (risk factor: exposure to sunlight). The approved budget for primary prevention for the 1998/99 fiscal year is \$700,000.

CCO's three-year strategic plan stated: "It has increasingly been recognized that in order to make important gains in reducing cancer incidence, morbidity and mortality, an approach that places greater emphasis on prevention is critical." In that regard, CCO planned to develop a comprehensive and coordinated approach to cancer prevention that is accessible to all individuals in the province.

CCO's strategy included ensuring that new prevention initiatives are implemented; however, no formal protocols had been developed to evaluate and coordinate their implementation. For example, CCO did not have protocols that could be used:

- to evaluate new breast cancer prevention drugs and coordinate their use in conjunction with the Ontario Breast Screening Program; or
- to ensure that the most recent findings on skin cancer are communicated through coordination with other prevention agencies, including public health units.

In its April 1998 *Cancer Report Card*, CCO stated that “preventing cancer by eliminating its causes is our best strategy to save lives and prevent suffering.” However, cancer causes such as high-fat, high-calorie diets, physical inactivity, unprotected sun exposure, workplace carcinogens and excessive alcohol consumption were not being effectively addressed in Ontario. Plans to deal with this included encouraging a strong public health system and developing strategies for promoting healthy eating, active living and sun safety.

To this end, CCO created the Ontario Network for Cancer Prevention (ONCP) to create a single focus for cancer prevention in Ontario. All organizations in Ontario active in cancer prevention are to be brought together to identify, prioritize and develop new prevention programs; to document and build on the demonstrated strengths of existing programs; and to implement and evaluate a comprehensive approach to cancer prevention in the province. The ONCP will plan and promote the development, implementation and evaluation of effective and cost effective programs in cancer prevention. At the time of our audit, ONCP activities had been limited to preliminary contacts with other organizations regarding tobacco use prevention.

We will follow up on CCO’s progress in this area in the near future.

MANAGING RESOURCES

MANAGING RESEARCH

Cancer research includes research in the areas of basic science, prevention and clinical trials. CCO’s Provincial Research Advisory Committee is responsible for the setting of research standards, the development of research policies and the coordination of research projects. Prior to its April 1998 meeting, the Committee had not met since 1996. Research expenditures for the 1998/99 fiscal year totalled \$5.9 million.

In 1998, CCO began providing each of the five larger RCCs with block grants for research funding. Those five RCCs determine how their research funds are to be allocated. At the time of our audit, CCO had no comprehensive list of all of the RCCs’ research projects. However, we were informed that a system to track all research projects is being implemented.

CCO’s three-year strategic plan, prepared in 1997, stated that critical success factors for cancer research include fostering the development of initiatives among the various cancer research groups in Ontario and successfully selecting the individuals, programs and initiatives to support. However, CCO did not generally coordinate its research with other organizations such as the Canadian Cancer Society and the Institute for Clinical Evaluative Sciences (ICES). For example, although ICES had developed breast cancer decision-aid materials for patients, one RCC separately developed its own materials for similar purposes.

One of the RCCs we visited did not have a research strategy but had held a planning session in March 1998 to discuss the future direction and focus of its research. As a result, that RCC developed a vision statement to help determine which research projects to fund in the future.

In addition, external research reviews had been conducted at five of the eight RCCs, generally as part of a five-year review of each RCC's chief executive officer. These reviews focused on overall research operations rather than specific research projects. We were also informed that all RCCs we visited completed annual performance reviews of researchers.

Monitoring of individual research projects varied among the RCCs we visited. One RCC held regular review meetings to discuss research projects, another had weekly seminars presented by researchers and a third assessed researchers based on the amount of outside funding they received.

Recommendation

To help foster cost-effective initiatives among cancer research groups in Ontario and to generate appropriate information for selecting researchers, programs and initiatives to support, Cancer Care Ontario should:

- develop standard processes for approving, monitoring and evaluating research projects; and
- better coordinate the research efforts of the regional cancer centres and monitor the research activities of other organizations.

Agency Response

A database for research projects has now been developed, and data entry for 1998 is complete. Internet-based forms will be developed in 1999 to permit continuous updating of research information as well as wider accessibility.

The Research Advisory Committee (RAC) coordinates and monitors, at arms length, the development of province-wide research initiatives and the establishment of targeted research groups. RAC meetings have now been scheduled to occur bi-monthly. Two have taken place since November 1998, as well as two teleconference calls.

Four members of the newly constituted RAC serve on the National Cancer Institute of Canada Advisory Committee on Research, and many of CCO's scientists are members of peer review committees. RAC membership now includes representatives from other cancer research institutions in Ontario and Canada.

The requirement that CCO scientists obtain their ongoing operating funds from external agencies provides assurance of research quality and productivity. The RAC is examining the feasibility of creating several networks to improve the coordination of research in Ontario. The possibility of joint funding of specific research networks is being discussed with the National Cancer Institute of Canada. Funding for outcomes research provided to CCO has been used to formalize links with the Institute for Clinical Evaluative Sciences. The feasibility of linking the research groups at the RCCs via video-conferencing and increasing the number of CCO-sponsored workshops will be assessed.

3.08

CANCER SURVEILLANCE SYSTEMS

The purpose of cancer surveillance is to collect information that can be used by cancer researchers for planning, implementing and evaluating cancer control strategies. Relevant areas of information range from cancer incidence and mortality to public behaviours and attitudes.

In its 1998/99 Operating Plan, CCO assigned responsibility for developing a cancer surveillance plan for Ontario to the Director of the Surveillance Unit of its Preventive Oncology Division. At the time of our audit, CCO was addressing the development of a surveillance plan with a number of initiatives, including identifying weaknesses in the current system, identifying and creating province-wide information sources and ensuring access to information collected.

However, CCO's plan lacked a clear mandate from the Ministry, and, in some cases, the authority to collect needed information. For example, the Ontario Cancer Registry (OCR), the primary surveillance information system available to CCO, was established as a voluntary registry to contain medical data on Ontario residents who have been diagnosed with or have died of cancer. The OCR enables CCO to monitor and analyze cancer trends in the province, to compare them with national and international trends, to identify causes and influences of the courses of cancers, and to estimate current and future resource needs. Between 1964 and 1994, over 896,000 cases of cancer were recorded in the OCR.

CCO's senior management has estimated that laboratories do not submit to the OCR approximately 20% of their reports relating to cancer because there is no legislative requirement to provide such information.

In 1996, CCO attempted to improve OCR's accuracy by requesting the Ministry of Health to provide personal medical information contained in its Ontario Health Insurance Plan databases. However, the Ministry determined that such information is personal and providing it to CCO would be contrary to the *Freedom of Information and Protection of Privacy Act*. As a result, the OCR has not received any hospital records for cancer patients since 1996.

In addition, despite the fact that OCR has been in use for over 30 years, we found that CCO had not established minimum data standards for information to be collected during the course of treatment and submitted to the OCR by RCCs. Further limiting the usefulness of the OCR was lack of information on identified cancer stages. This information could be requested from the RCCs, which could routinely collect such data in the course of treating cancer patients.

Recommendations

The Ministry should clearly define Cancer Care Ontario's (CCO's) mandate regarding cancer surveillance and should ensure that CCO has the authority it requires to meet that mandate.

To improve the usefulness of the Ontario Cancer Registry, CCO should further develop standards and guidelines for the type of data to be collected.

Ministry Response

The Ministry agrees with the recommendation and has worked with CCO to define its mandate within the draft Memorandum of Understanding.

Agency Response

The recommendation is accepted. Improving the quality and utility of the Ontario Cancer Registry is a priority for CCO. The Ontario Cancer Registry has adopted the relevant data and operational standards from the International Agency for Research on Cancer, the Canadian Cancer Registry and the North American Association of Comprehensive Cancer Registries. The Ontario Cancer Registry is particularly interested in improving the depth of information it collects about cancer cases, including cancer stage.

FINANCIAL CONTROLS

POTENTIAL CONFLICTS OF INTEREST

CCO had developed a conflict-of-interest policy that applies to employees and to non-employees appointed to committees. Any conflict of interest is to be reported to the employee's supervisor or to the appropriate committee chairman to determine the need for written disclosure. However, we have certain concerns regarding the effectiveness of this policy, as illustrated by the following examples:

- In 1997, a consulting firm was paid \$12,000 to evaluate CCO's financial system requirements and recommend a suitable replacement system. Based on the firm's recommendation, CCO purchased a new financial system for \$166,000. Some members of the selection committee questioned the consulting firm's independence, noting that it had a direct interest in the supplier of the system being recommended.

While the consulting firm provided verbal assurance to CCO that it did not have a financial interest in the supplier of the system, it had a group specializing in installing the system. CCO subsequently awarded a \$172,500 contract to the consulting firm to implement the new system. This contract was not tendered.

In April 1998, CCO tested the new system and found a number of technical problems. CCO concluded that the new system would not work without significant modifications. In

the interim, CCO incurred systems development costs totalling approximately \$282,000 and continued to use its old financial system. At the end of the audit, CCO was negotiating with the system supplier and the consultant.

- In February 1998, CCO competitively hired a consultant as Acting Manager of Technical Engineering and Production Support until a full-time manager could be hired. The consultant's first assignment was the review of a request for proposal for a Year 2000 assessment and coding correction project.

In March 1998, CCO, rather than issue another request for proposal, used the rates bid on the Year 2000 project to select a consulting firm to create a project management office. A firm owned by the Acting Manager submitted a lower proposed price than the prior bids and was awarded a one-year contract at \$1,047 per day (\$22,000 per month). No other consultants were given an opportunity to bid on the assignment. CCO management agreed that the consultant selected likely had information that could have assisted in making the proposal, which was just \$3 per day lower than the lowest prior bid.

In June 1998, the same consulting firm was the lowest bidder on a request for proposal for additional information technology work. This \$113,000 contract placed the firm in the position of supervising its own work.

- We reviewed the process used to purchase radiation equipment at one RCC. Documentation indicated that two of the three vendors submitting proposals approached selection committee members with additional incentives not included in their original proposals. A vendor that had offered to provide \$250,000 in research funding was awarded the contract. We were informed that the research offer was brought to the attention of the other selection committee members after all vendor proposals had been evaluated for their technical merit, but before the final decision was reached.

The value of the research funding was considered in the cost comparison of the proposals, and the individual receiving the offer remained a member of the selection committee.

Recommendation

To help ensure that the right goods and services are purchased at the right prices and to avoid potential conflicts of interest, Cancer Care Ontario should:

- **eliminate actual or potential conflicts prior to awarding contracts; and**
- **inform vendors that proposals should detail all incentives and benefits.**

Agency Response

We have noted your comments and will reinforce the conflict-of-interest policy. We have also issued updated policies.

ADMINISTRATION OF CONSULTING CONTRACTS

When hiring consultants, competitive practices and contracts with fixed prices and measurable deliverables help ensure that the best qualified and most economical candidates are selected. We found that CCO's controls over the acquisition and monitoring of large consulting contracts were adequate. However, controls over services from smaller firms were insufficient. For example:

- While CCO's policies require at least three written quotations for all expenditures in excess of \$2,000, a number of consulting contracts in excess of \$2,000 were awarded with no evidence of a documented needs assessment or explanation for not using a competitive selection process. Written explanations are required where three quotations are not obtained.
- Written contracts outlining the expected deliverables and rates of remuneration were not always prepared for consulting arrangements. Some consultants were hired solely on a verbal understanding as to the expected deliverables and remuneration.
- Little or no documentation existed to indicate that the work of the consultants was formally monitored and evaluated. The length of contracts was often extended without evaluating the consultant's performance or explaining why the deliverables had not been met.

Recommendation

To better ensure that value for money is received from consultants, Cancer Care Ontario should:

- **enforce compliance with its policy that written explanations be obtained where competitive acquisition policies are not followed;**
- **require that contracts contain measurable deliverables, rates, timeframes and termination clauses; and**
- **ensure written evaluations are prepared on the work performed by consultants.**

Agency Response

We have noted your comments and have enforced compliance of policies. A revised/new policy for consulting has been issued and we will request written evaluations wherever possible.

CANCER CARE INTERNATIONAL

Management Board of Cabinet directives state that prior Management Board approval is required to establish or incorporate all new agencies, including subsidiaries of existing agencies. In 1995, the Ontario Cancer Treatment and Research Foundation (OCTRF) created a subsidiary, Cancer Care International (CCI), to provide cancer consulting and training services to developing countries. While support was obtained in December 1994 from the

then-Deputy Minister of Health, we found no evidence that Management Board approval had been obtained for the creation of CCI.

We were informed by CCO management that, in addition to providing assistance to other countries, CCI would provide OCTRF/CCO staff with an opportunity to broaden their knowledge and experiences. Revenues generated by CCI were to be used by the OCTRF/CCO for cancer research and other cancer programs in Ontario.

While CCI had obtained a number of contracts, it did not earn sufficient revenues to cover its operating and administrative costs. As at March 31, 1998, CCI reported an accumulated operating deficit of approximately \$538,000, mostly funded by a \$495,000 loan from CCO.

In June 1998, CCO's board of directors decided to limit its liability and authorized management to locate a potential purchaser of CCI. Under the proposed terms of sale, CCO would continue a strategic alliance with the new owner of CCI. In August 1998, CCI was sold to its vice-president for a percentage of certain future gross revenues. We were advised by CCO management that since CCI had only one ongoing contract, there were no other interested buyers. CCO was to provide secretarial support and office space at no cost to the purchaser for one year. The outstanding loan would be considered repaid after CCI paid CCO approximately \$150,000 it was to receive for services already rendered, thus resulting in CCO potentially writing off over \$300,000 in loans to CCI.

Although the *Cancer Act* does not address the establishment of a subsidiary company, Section 15 of the Act does permit CCO to dispose of any rights or interest it has acquired, subject to the approval of the Lieutenant Governor in Council. CCO notified the Ministry of Health in July 1998 that a sale was pending, but there was no record of a response or advice from the Ministry nor an Order in Council evidencing the approval of the Lieutenant Governor in Council.

We analyzed CCI's expenditures since inception and found that its accumulated deficit resulted primarily from the following:

- Unexpected circumstances resulted in CCO paying \$125,000 to an executive placement firm to recruit two new presidents during CCI's three-year history. In the second year of operation, a consultant received \$15,000 to evaluate CCI's executive compensation plan and to develop a bonus formula based on the projection that CCI would be a growing, profitable company.
- At the time that CCO decided to sell CCI, CCI had three executive staff members with combined annual salaries and benefits totalling approximately \$400,000 while annual gross revenues were less than \$500,000.
- In 1997, CCI spent \$140,000 for renovations to its office space. The original budget was \$100,000. The contractor suggested less costly alternatives to the hardwood flooring and the upgraded mahogany office furniture selected. These alternatives were not accepted.

We also reviewed CCI's expenditures and found that some travel and hospitality claims were approved and paid without appropriate supporting documentation. At our request, CCO staff subsequently obtained the required documentation to support the expenditures.

Recommendation

In future:

- the Ministry and Cancer Care Ontario (CCO) should ensure that proper approvals are obtained for the creation of any subsidiaries and their disposition;
- start-up costs should be kept to a minimum; and
- expenses should be properly documented and supported.

Agency Response

We have noted your comments and will ensure that your recommendations will be followed in the future.

Ministry Response

The Ministry agrees with this recommendation and will explore ways to incorporate such requirements into revisions to Cancer Care Ontario's governing legislation.

Institutional Health Program— Transfer Payments to Public Hospitals

3.09

The *Public Hospitals Act* provides the legislative authority to regulate and fund the operations of public hospitals in Ontario, while the *Health Insurance Act* defines the medical services to be provided by hospitals. Currently, approximately 80% of the operating costs of public hospitals are funded through transfer payments from the Ministry of Health and Long-Term Care. Each hospital's board of directors is responsible for the delivery of services by the hospital. The Ministry and hospital boards are both responsible for ensuring compliance with legislation and regulations.

In April 1996, the Minister of Health established the Health Services Restructuring Commission (HSRC) under the *Ministry of Health Act* as an independent agency at arms length from the government. The fundamental goal of restructuring is to ensure that appropriate and cost-effective health services are in place to meet the needs of Ontario's growing and aging population.

The Ministry's Institutional Health Program provides funding to public hospitals for the costs of operating their facilities. The Institutional Health Program is administered by the Ministry's Health Care Programs Division, which is responsible for the operational planning, policy development and funding of public hospitals.

In the 1998/99 fiscal year, the Ministry provided approximately \$7.1 billion for the operation of public hospitals as shown in the following table.

Summary of Transfer Payments for the Operation of Public Hospitals

Type of Funding	1997/98 (\$ millions)	1998/99 (\$ millions)
Base Funding	6,509	6,646
Transition Funding	24	251
Growth Funding	47	62
Emergency Ward Funding	0	35
Other Funding	124	83
Total	6,704	* 7,077

* In addition, in 1998/99 the Ministry provided financial assistance to public hospitals to make their computer systems ready for Year 2000.

Source: Ministry of Health and Long-Term Care

In addition to the responsibilities outlined above, the Division facilitates and coordinates the implementation of the recommendations and directions of the HSRC. During the 1998/99 fiscal year, the Ministry provided \$248 million to hospitals for one-time costs incurred in implementing HSRC directions.

The Ministry's Corporate Services Group, through the Health Capital Program, provides financial assistance to hospitals for the cost of approved capital construction. In the 1998/99 fiscal year, the Ministry provided approximately \$52 million in funding for hospital capital construction and \$49 million for HSRC-directed capital projects.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of transfer payments to public hospitals were to assess whether the Ministry had adequate procedures in place:

- to ensure that hospitals are funded equitably and in accordance with applicable legislation and ministry policies; and
- to monitor and report on the effective and efficient operation of the public hospital system.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objectives. These were reviewed and agreed to by ministry senior management.

In conducting our audit, we reviewed and analyzed ministry policies and procedures; interviewed ministry and HSRC staff; reviewed relevant reports and literature as well as hospital documentation maintained by the Ministry; and researched the delivery of hospital systems in other jurisdictions.

We also reviewed the relevant work of the Ministry's Internal Audit Branch. However, since the Branch had not performed any recent audits of programs administered by the Health Care Programs Division, we were unable to rely on their work to reduce our audit work. Our audit was substantially completed in May 1999.

OVERALL AUDIT OBSERVATIONS

While the Ministry had adequate procedures to ensure that hospitals were funded in accordance with applicable legislation and ministry policies, there were insufficient procedures to ensure that hospitals were funded equitably. In order to ensure that funding reasonably relates to hospital services provided, the Ministry needed:

- to develop systems to fund hospitals based on the demand for services rather than on historical expenditure patterns;

-
- to develop and use appropriate criteria for providing assistance to hospitals experiencing financial difficulties; and
 - to put in place a more rigorous negotiation process to relate operating funds to new approved facilities.

In 1994 we had reported that an appropriate accountability framework would enable ministry management to put policies and procedures in place to hold hospitals accountable for the prudent expenditure of public funds. However, such a framework has still to be developed.

In addition, the Ministry did not have adequate procedures for monitoring and reporting on the effective and efficient operation of the public hospital system. In particular, the Ministry needed:

- to develop a set of indicators to measure and report on the performance of public hospitals in delivering quality services;
- to improve its process for the timely submission, review and approval of hospital operating plans;
- to develop protocols to ensure that patient complaints received by the Ministry are consistently investigated and resolved on a timely basis;
- to evaluate the effectiveness of temporary emergency ward funding and initiatives to reduce overcrowding in hospital emergency rooms; and
- to periodically monitor and assess the effectiveness of the restructuring process.

3.09

DETAILED AUDIT OBSERVATIONS

HOSPITAL FUNDING

ALLOCATION OF OPERATING GRANTS

Hospital operating funds are provided through a base grant and one-time grants allocated for purposes such as transition funding, population growth and specialized treatment programs. Normally, the base grant amount for each hospital is carried forward from one year to the next. However, in the 1996/97 and 1997/98 fiscal years, base grants were reduced by a total of \$365 million and \$435 million respectively. For the 1998/99 fiscal year, base grants totalled approximately \$6.6 billion while total one-time grants to hospitals amounted to \$431 million.

In March each year, hospitals are informed of their operating grant allocation for the upcoming fiscal year. Based on its allocation, each hospital develops an operating plan for ministry approval. Generally, hospitals are allowed to retain their surpluses but are expected to absorb their deficits.

We reviewed the calculation of 1997/98 hospital base and one-time grants for a sample of hospitals and found that the funding was generally determined in accordance with established policies and procedures.

Any funding adjustments were allocated using an Adjustment Factors Funding Formula which is intended to take into account a hospital's cost efficiency. The formula was developed by the Joint Policy and Planning Committee (JPPC), comprising representatives from the Ministry and the Ontario Hospital Association. An efficient hospital is intended to benefit more from this formula than an inefficient one. This formula was used to allocate the reductions in base funding in 1996/97 and 1997/98, and to allocate certain transition funding in 1998/99.

We reviewed the Adjustment Factors Funding Formula, and noted that:

- The formula does not take into account the demand for hospital services and does not measure the appropriateness of current hospital practices. Currently, only certain new one-time funding is allocated by the formula.
- The formula has not established a clear relationship between a hospital's relative cost efficiency and its base grant. As of September 1998, approximately 34% of the hospitals incurring deficits were considered efficient, while 10% reporting surpluses were considered inefficient.
- The formula focuses on acute inpatient care activities and costs, which account for approximately 60% of all hospital expenditures. Activities such as outpatient clinics and emergency care are excluded due to a lack of reliable statistical data.

Recommendation

To better reflect the changing nature of hospital services and to ensure equitable funding to public hospitals, the Ministry should:

- improve the hospital funding mechanism, taking the demand for services into account; and
- expand the funding mechanism to encompass other significant hospital activities such as outpatient clinics and emergency care.

Ministry Response

The Ministry is reviewing other funding methodologies which are more activity based. The Joint Policy and Planning Committee (JPPC), a partnership between the Ministry and hospitals under the auspices of the Ontario Hospital Association, will be providing ongoing advice to the Ministry on population-based funding for hospitals.

Population-based funding is quickly becoming the preferred funding methodology in both national and international jurisdictions. It is a tool which distributes a predetermined budget to where resources are most needed.

This method of funding, once initiated, will take into account demand for services, outpatient clinic volume and emergency care volume. The JPPC will be preparing a shared implementation approach to Rates and Volumes Equity (RAVE) funding methodology. The final phase will include acute inpatient and same day surgery portion of hospital funding (60%) with complex continuing care, rehabilitation and emergency services to follow.

TRANSITION FUNDING

In the 1998/99 fiscal year, the Ministry introduced transition funding programs to provide financial assistance to hospitals with short-term financial pressures. Based on its review of the 1998/99 operating plans submitted by hospitals, the Ministry projected that 121 hospitals would incur operating deficits totalling approximately \$236 million, as shown in the following table.

Projected 1998/99 Hospital Deficits

Deficit as a Percentage of Budget	No. of Hospitals	Total Deficit (\$ millions)
0% to 5%	92	79
5% to 10%	20	53
More than 10%	9	104
Total	121	236

Source: Ministry of Health and Long-Term Care projections

Transition funding totalling \$275 million was provided in three distinct phases: \$47 million in April 1998, \$100 million in December 1998 and \$128 million in March 1999. As a result, the Ministry anticipated that most hospitals would report a balanced budget for the fiscal year ended March 31, 1999. We reviewed the allocation of transition funding and noted that:

- The relative cost efficiency of a hospital was not always considered. For example, in the December 1998 phase, while a cost-efficient hospital could receive up to 4.2% of its annual allocation, a cost-inefficient hospital could only receive up to 1.2%. However, for the March 1999 phase, a hospital's relative cost efficiency did not affect the allocation. Eight of the 28 hospitals that received funding were considered cost inefficient by the Ministry. However, all 28 hospitals received 5% of their annual allocation.
- Each phase had different eligibility criteria. For example, while the amount of transition funding a hospital could receive from the December 1998 phase was capped when the hospital's operating position changed to a surplus of 1% of its ministry allocation, no such funding cap was in place for the March 1999 instalment. As a result, 17 of the 28 hospitals that received funding in March 1999 were anticipating operating surpluses ranging from 2% to 6% of their ministry allocation.

Recommendation

To ensure future transition funding is provided in a more equitable manner, the Ministry should review and revise where necessary the criteria for providing assistance to hospitals experiencing financial difficulties.

Ministry Response

The Ministry will continue to develop and refine its approach where funding is provided of a transitional nature. Transitional funding was the first of its kind provided by the Ministry, and the Ministry is now better positioned to propose a consistent approach to meet these funding goals.

GROWTH FUNDING

In 1996/97, the Ministry introduced a program to provide additional funding to hospitals in geographical areas experiencing significant population growth. Between 1996/97 and 1998/99, the Ministry provided a total of \$139 million in growth funding to hospitals based on allocation methods developed by the Joint Policy and Planning Committee (JPPC).

For the 1997/98 fiscal year, the Ministry announced growth funding allocations based on preliminary JPPC growth statistics. When the JPPC revised the calculations, the Ministry decided to fund individual hospitals at the higher of either of the two calculations. This resulted in an additional \$5.6 million in growth funding being provided, including \$2 million that was provided to 19 hospitals that were ineligible for any growth funding.

While the Ministry had advised hospitals that adjustments to reflect actual population growth would be made at the end of the fiscal year, as of March 1999, the adjustment process had not yet been implemented. Since this growth funding has been renewed for two more years, the overpayment could total up to \$16.8 million unless adjustments for actual population growth are made.

Recommendation

The Ministry should refine its funding formula to ensure that financial assistance to hospitals experiencing patient growth is allocated appropriately.

Ministry Response

The Ministry, through its partnership with the Joint Policy and Planning Committee, continues to refine its growth funding methodology.

The original growth funding methodology compared population growth of counties to the provincial average. The consequent population-based expected growth was assigned to hospitals serving areas of high population/aging growth. For the 1999/2000 fiscal year, updated census data and the latest available 1997/98 hospital profiles (weighted cases) were used. There is a potential for the further refinement of growth funding with the implementation of Rates and Volumes Equity funding methodology.

EMERGENCY WARD FUNDING

3.09

In 1997/98, the Ministry began to receive information that emergency departments of hospitals in Metropolitan Toronto and the surrounding area were becoming increasingly crowded, often requiring ambulances to bypass nearby hospitals and take patients to others. The Ministry and the Ontario Hospital Association created a joint working group to address this issue.

In April 1998, the working group released a report containing 25 recommendations to improve the emergency room process in Toronto. The working group found that, on average, patients awaiting admission to inpatient beds used 47% of the emergency department capacity and that patients awaiting transfer to nursing homes or rehabilitation facilities occupied approximately 10% of the available acute care beds. Recommendations from the working group included investing in the creation of temporary long-term care beds in Toronto and interim funding for hospitals that could demonstrate that emergency ward overcrowding led to opening unfunded acute care beds.

Also in April 1998, the Ministry committed \$225 million over two years and created a steering committee to monitor the implementation of the recommendations. We reviewed the status of the Ministry's emergency ward funding initiatives and found that:

- In October 1998, to relieve the pressure on hospital emergency departments, 60 hospitals received funding totalling \$32.8 million to offset the operating costs of unfunded acute care beds, increase emergency staffing and other service enhancements. To ensure funding was used to improve emergency room services, management at each hospital receiving funding had to sign a detailed service agreement. Each hospital was required to collect data to develop benchmarks for improved customer service and submit these data to the Ministry on a monthly basis starting January 1, 1999. To monitor each hospital's progress in meeting the terms and conditions of the agreement, the Ministry developed an audit process.

In March 1999, prior to receiving the required monthly data from the hospitals, the Ministry began allocating the 1999/2000 emergency ward funding of \$40 million for release in April 1999. At the time of our audit, while the Ministry was in the process of collecting the monthly data, it had not developed a process to evaluate the effectiveness of the initial funding in reducing emergency room waiting times or the number of times ambulances had to bypass hospitals.

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- In July 1998, the Ministry released a Request for Qualifications to all Ontario hospitals and long-term care facilities to supply 1,700 temporary long-term care beds to be used by patients awaiting transfer to nursing homes or rehabilitation facilities. The two-year funding made available was \$55 million. The Ministry committed that the beds would be operational by October 1998. As of March 1999, only 962 beds were operational of which 620 were occupied. Ministry funding totalled \$3.3 million. The Ministry attributed the delays to a number of factors, such as a lack of available bed space in the existing hospitals and long-term care facilities.

Considering the number and complexity of the issues relating to emergency ward usage, it is important to evaluate the relative success of ministry funded initiatives. Evaluating the effect on reducing overcrowding in emergency rooms would provide useful information for the Ministry to consider when introducing other related initiatives.

Recommendation

To ensure the efficient and effective use of temporary emergency ward funding, the Ministry should evaluate the effectiveness of all emergency ward funding and initiatives on reducing overcrowding in hospital emergency rooms.

Ministry Response

The 1999/2000 fiscal year funding was allocated based on relative need. Funding criteria included growth in weighted cases admitted through the hospital's emergency department, the hospital's number of Alternative Level of Care days and the hospital's bed occupancy rate. Funding was calculated based on expected direct cost per weighted case. A further study implemented by the Ministry in February 1999 was the issuing of standards for Redirect Consideration/Critical Care Bypass. These standards outline a range of actions hospitals must take before being declared overcrowded.

The Ministry is committed to evaluating temporary emergency ward funding by the end of the 1999/2000 fiscal year.

CAPITAL PROJECT FUNDING

The Ministry provides capital grants to hospitals for the construction and renovation of facilities. Generally, the Ministry funds approximately 50% of the eligible capital and equipment costs of approved capital projects.

Potential construction projects must follow the Ministry's capital planning process, which includes a requirement that projects be tendered. We reviewed a sample of capital project files and found that they were approved according to ministry priorities and within the funding limits set by ministry policy.

However, we noted that in 1993 the Ministry had approved the construction of a new hospital to serve a rapidly growing population and to provide certain specialized health care services to residents who previously had to travel to larger urban centres. The new hospital, which became operational in 1997, cost approximately \$110 million, of which \$68 million was funded by the Ministry. The Ministry had approved the capital project on condition that the hospital agreed to operate the new facility within its existing funding allocation. The Ministry's annual funding to the hospital remained relatively constant at approximately \$46 million between 1996/97 and 1998/99. During this period the hospital reported to the Ministry that, due to its increasing operating deficit, the extra capacity of the new hospital was not being fully utilized. For example, four of its eight operating rooms were idle and local residents continued to travel to other centres for specialized care. In February 1999, consultants hired by the Ministry reported that a significant deficit does and will continue to exist if the hospital continues to receive its current level of funding.

Recommendation

The Ministry should put in place a more rigorous negotiation process to relate operating funds to new approved facilities.

Ministry Response

The Ministry's capital planning process requires hospitals to address pre-construction operating budgets in the course of planning their projects. Because of the aggressive timeframes set by the Health Services Restructuring Commission (HSRC) for implementation of directed projects, the Ministry has allowed hospitals to proceed with project design based on approval of functional programs. The approval to proceed with capital planning does not include ministry commitment to operating funding.

In some instances the Ministry has allowed hospitals to proceed quickly with some components of the overall capital project to ensure that needed preparatory work is complete.

The Ministry is now working to address the pre-construction operating budgets for approved projects that are, or soon will be, under construction. The Ministry has projected the impact of the HSRC directed projects and has incorporated them in the multi-year planning process.

ACCOUNTABILITY FRAMEWORK

The *Public Hospitals Act* provides the Minister with the authority to impose terms and conditions for financial assistance provided to hospitals.

In 1988, Management Board of Cabinet issued a Directive on Transfer Payment Accountability to hold transfer payment recipients accountable for their management of public funds. The Directive prescribed a framework with four key requirements:

- setting expectations;
- contracting for services;
- timely reporting of results achieved; and
- taking corrective action where necessary.

These requirements were reaffirmed in a Directive issued in 1998. Ministries are required to fully comply with this Directive by April 1, 2000. Until then, ministries must comply with it to the extent that it is possible, reasonable and cost effective.

In our 1991 and 1994 *Annual Reports*, we had reported that the Ministry had not fully complied with the original Directive. Agreements with hospitals about the objectives and results to be achieved were not in place. In 1992, the Ministry established a steering committee to review the *Public Hospitals Act* and advise the Minister on the changes needed to effectively respond to future health care needs in Ontario. The committee's recommendations included developing new legislation that clearly defines the responsibilities and accountabilities of the Ministry and hospital boards of directors. However, these recommendations were not implemented.

We were advised that, in response to our previous reports, the Ministry in July 1997 began work on an accountability framework for hospital operations. However, we understand that its implementation was deferred because further study was required.

In 1998, the Ministry retained consultants to assess the effectiveness of the existing hospital operating plan process in addressing accountability. In their report, the consultants noted a lack of mutual understanding about accountability relationships. For example, the consultants noted that while the Ministry believes that hospitals are accountable to it for the expenditure of public funds, hospitals feel they are accountable to their communities and patients and that the Ministry is primarily a payment agency. The consultants recommended that the Ministry:

- implement a process to clearly articulate an accountability framework between the Ministry and the hospitals; and
- redesign hospital operating plans to reflect and support the new framework.

The Ministry accepted the consultants' recommendations and, in January 1999, established a task force to design an accountability framework that clearly delineates the roles and responsibilities of both the Ministry and the hospitals. The task force includes representatives from the Ministry, the Ontario Hospital Association, hospital management and other stakeholder groups. At the end of our audit, the task force had not completed its work.

Recommendation

The Ministry should ensure that an accountability framework that clarifies its expectations of hospitals and their accountability to the Ministry is implemented as soon as possible.

Ministry Response

The Ministry in partnership with the Ontario Hospital Association is developing an accountability framework. This framework will define roles and responsibilities; outline accountability relationship principles; define reasonable reporting requirements, review and adjustment processes and public disclosure; and recommend an implementation strategy to review existing reporting, review and disclosure mechanisms. New mechanisms will be developed to meet the criteria of the accountability framework.

The accountability framework is expected to be completed in 1999.

3.09

PERFORMANCE MEASUREMENT AND REPORTING

Since our 1994 audit, the Ministry has made a number of attempts to develop performance indicators to measure hospital services and outcomes. For example, we were advised that a 1994 project to develop efficiency and performance indicators was discontinued in 1996 because it proved to be too complex and did not use the existing data contained in the Ontario Hospital Reporting System.

In Ontario, the *Ministry of Health Act* requires the Minister to report annually to the Legislature on the affairs of the Ministry. While the Ministry produces an annual business plan, the 1998/99 Business Plan contained only two performance measures for the hospital system:

- readmission rates for the same diagnosis within one week of discharge; and
- percentage of days spent by a patient in an acute care hospital when another type of facility would have been more appropriate.

The Ministry had committed to developing targets for each measure. However, these indicators provide limited information about the performance of the hospital sector. Senior management also informed us that readmission rates were no longer considered a suitable performance measure for the hospital system.

Developing performance indicators was included in the 1998/99 work plans of two ministry working groups. However, as of March 1999, no indicators had been developed to appropriately measure the performance of the public hospital sector.

From a sample of 1998/99 hospital operating plans, we noted that while some hospitals had begun to develop key outcome indicators to monitor and measure their operations, there is no requirement to report these results in annual hospital operating plans. The Ministry has a responsibility to periodically report on the performance of the public hospital system. However, the last ministry-prepared report on the operations of the public hospital sector, *1997/98 Operating Plan Status Report*, was never released.

Recommendation

To better measure and, where necessary, act on the performance of public hospitals, the Ministry should:

- identify a comprehensive set of performance indicators and ensure these indicators are incorporated into hospital operating plans; and
- periodically report on the performance of the public hospital sector in delivering quality services to the public.

Ministry Response

Indicators and areas of comparability are currently being worked on. There are several financial indicators that have been used during the review of operating plans. Data quality indicators will be included with the verification reports which are used to improve the quality of data submitted for the 1998/99 Ontario Hospital Reporting System. The current review of the operating plan requirements for 2000/01 has identified some indicators to be included with the reporting templates.

Input on data quality is being solicited from hospitals to ensure they are useful for developing their operating plans. Additional reports will be developed for all areas with a plan to send out a complete package of reports covering the 1998/99 fiscal year.

The Ministry is presently working to develop a "report card" on hospital performance.

MINISTRY MONITORING

OPERATING PLANS

Hospitals are required to submit various reports to the Ministry, including annual operating plans, quarterly reports and audited financial statements. Hospital operating plans describe and quantify the hospital's programs and services, human resources and financial initiatives. Each operating plan is reviewed by the District Health Council in the context of local, district and regional health needs. The Ministry gives final approval after being satisfied that the funding is used to provide the appropriate services.

In their reports for the second and third quarters of each fiscal year, hospitals are required to outline variances from the operating plan, the reasons for any variances and remedial actions. The Ministry may conduct operational reviews, clinical audits and, in the more serious cases, appoint investigators or supervisors.

The consultants hired by the Ministry to assess the effectiveness of hospital operating plans reported that:

- Operating plans varied significantly in the quality of supporting information. Some operating plans provided limited documentation to support the hospital directions and expected results.
- There was a lack of consistency in the approach to the reviews of the operating plans, reflecting different personal styles of the Ministry's reviewers.
- A number of hospitals did not receive approval of their operating plans until the end of the third quarter of the applicable fiscal year. Such delays negated much of the value of the planning process.

We reviewed the hospital operating plans and quarterly reports for the 1997/98 and 1998/99 fiscal years and noted that many of the consultants' concerns still existed. Specifically:

- As of March 1999, the Ministry still had not approved the operating plans for 42 out of 180 hospitals for the year then ended. Most of these hospitals had projected significant deficits for the 1998/99 fiscal year.
- Although ministry staff indicated they reviewed the hospital quarterly reports, we could not assess the consistency or quality of the reviews, due to limited documented evidence.

Recommendation

To enhance the hospital operating plan process as an accountability and monitoring tool, the Ministry should:

- ensure that operating plans are submitted, reviewed and approved on a timely basis; and
- develop documentation standards for the review and analysis of quarterly reports.

Ministry Response

The Ministry is planning to advance the timing of operating plan submissions. This will enable the Ministry to review and approve plans on a more timely basis. However, the timing of funding approval is constrained by government timelines.

The operating plan review process for the 1999/2000 fiscal year has an updated ministry staff review guide. This will enhance the review process. The key issues were to improve the consistency in handling the plans, provide some indicators, provide the trends over three years, and to have guidelines about the time frames and the turnaround time. Ministry staff developed a Review Process and Timelines - Critical Path Flow Chart document along with a Timelines, Completeness & Quality Checklist to improve the accountability from both the hospitals and the Ministry.

The updated staff review guide also provides standards for reviewing the quarterly reports.

The Ministry is also considering having hospitals report, on a quarterly basis, the financial and statistical data recorded in the Management Information System.

MINISTRY BENCHMARKING PROCESS

Benchmarking is a process of identifying and adopting best practices to assist in improving performance. The Ministry's Planning Decision Support Tool (PDST) contains both the raw data and a series of benchmarks for various categories of acute care inpatient activity. These benchmarks highlight areas where there may be opportunities to improve operating efficiencies and effectiveness.

The PDST is intended to assist hospitals in analyzing and reviewing acute care patient services and to assess performance against provincial targets and averages, and benchmark performance levels. The system contains benchmarks that can be summarized in three groups—average length of stay, outpatient surgery and admission rates. We found that:

- The Ministry has not reviewed the ongoing usefulness of the current benchmarks as a measure of hospital operations. For benchmarks to be effective, it is important to periodically review the continued usefulness and applicability of individual benchmarks to the ministry and hospital decision-making process.
- The Ministry expects the individual hospitals to determine their own strategies and implement them in their organizations. However, if information was gathered on best practices, it could be summarized to assist other hospitals.

Recommendation

To ensure the benchmarking process is an effective management tool, the Ministry should:

- review the usefulness of current benchmarks; and
- develop processes to share information on best practices.

Ministry Response

The redevelopment and refinement of the Planning Decision Support Tool (PDST) is an ongoing process and is constantly being refined which will also improve hospital access to their specific PDST information. The Ministry has recently updated the PDST which will be shared with the hospitals by December 31, 1999.

The government's report card initiative is expected to assist hospitals with sharing information on best practices.

COMPLAINT PROCESS

Complaints about services or treatments received in a hospital can provide useful information about quality of care. Patients may complain to the hospital, the Ministry or to organizations such as the College of Physicians and Surgeons of Ontario. Generally, a patient would initially contact hospital management.

While the *Public Hospitals Act* does not contain provisions requiring hospitals to respond to complaints by patients, most hospitals have a formal process to deal with patient complaints about the services or treatment received.

Although the Ministry has limited authority to investigate complaints, the *Ministry of Health Act* authorizes the collection of statistics affecting the public. The Ministry does have a responsibility to take corrective action where there is evidence of systemic quality-of-care concerns. Such concerns could result from numerous patient complaints or complaints from professional bodies such as the College of Physicians and Surgeons of Ontario.

In our 1994 audit report we recommended that the Ministry improve its complaint handling process. In 1995, the Joint Policy and Planning Committee surveyed a sample of complainants and made a number of recommendations on improving the Ministry's complaint handling process, including annually evaluating the process and evaluating the feasibility of a single telephone number for registering complaints.

We reviewed the Ministry's process for handling complaints directed to the Ministry and noted that:

- The Ministry has not developed standard processes for individuals with complaints to follow when making complaints.
- Based on our tests, it took the Ministry 40 business days on average to respond to a complaint. The Ministry has not set specific performance levels for responding to a complaint.
- Complaints were rarely followed up to ensure the issue was addressed and any necessary corrective action was taken. The Ministry was formally informed of the hospitals' resolution of the complaints in less than 10% of cases that we reviewed.

Information on complaints received by hospitals could be incorporated into an overall hospital profile or used to corroborate other evidence of service quality deficiencies. However, the Ministry does not have information on the numbers and types of complaints against individual hospitals.

In May 1998, the Ministry approved a plan developed by a task force on improving the complaint process. The task force had made a number of recommendations, including the development of policies and protocols, and a database to track complaints. However, as of April 1999, the recommendations had not been implemented.

Recommendation

The Ministry should develop protocols that ensure that patient complaints to the Ministry are consistently investigated and resolved on a timely basis.

Ministry Response

Hospitals are responsible for the quality of care delivered in their institutions in conjunction with the professional associations.

The Ministry believes that the initial response for complaints made to the Ministry is made in a timely manner. Phone calls are made immediately upon receipt of the complaint, but are not always documented. The Ministry is committed to improving the documentation.

HOSPITAL ACCREDITATION

The Canadian Council on Health Services Accreditation (CCHSA) is an independent organization that administers an accreditation program for health care facilities. The program is based on a comprehensive self-assessment against the CCHSA's national standards and an on-site visit by a team of senior health care professionals from other hospitals. For hospitals, the CCHSA standards and team assessment are designed to address the processes, outcomes and structures relating to the quality of care and services provided. Unlike the United States, where participation is mandatory, the Canadian program is voluntary.

In our 1994 report, we noted that there was no process in place to ensure that all accreditation reports were received, reviewed and followed up by the Ministry. In its response, the Ministry agreed to introduce a monitoring process to ensure that appropriate action is taken by hospitals to address issues identified in the report. During 1997 and 1998, the Ministry did not request hospitals to submit accreditation reports. However, the Ministry is now requiring hospitals to submit the executive summary of their most recent accreditation reports with their 1999/2000 operating plans.

According to the CCHSA, the majority of Ontario acute care hospitals had participated in the accreditation process in 1997 and had received the standard three-year accreditation. However, 10% of the hospitals received a conditional accreditation, which indicates a minimal level of compliance with the CCHSA's standards.

Recommendation

The Ministry should determine whether hospitals are meeting Canadian Council on Health Services Accreditation standards.

Ministry Response

The hospitals are responsible for the quality of care in their institutions and to respond to hospital accreditation issues.

Commencing with the 1999/2000 operating plan submissions, hospitals must include the executive summary report from the Canadian Council of Health Services Accreditation. As part of the review process, the Ministry will also be looking into collecting other information that will help identify hospitals that require further review and follow-up.

HOSPITAL RESTRUCTURING

The Health Services Restructuring Commission (HSRC) has the legislated authority to direct hospitals to undertake restructuring activities and to advise the Minister on restructuring other aspects of Ontario's health services system, such as the reinvestment of savings.

Since its inception in 1996, the HSRC has issued legally binding directions to hospitals to undertake capital projects totalling an estimated \$2.1 billion, and recommended that the Ministry invest \$1.1 billion in community resources such as long-term care facilities and home care. In its restructuring reports, the HSRC estimated that its decisions would generate \$1.1 billion in annual savings to the health system through clinical and administrative efficiencies, rationalization of services and facility closures.

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In February 1999, the government announced that the HSRC's work on hospital restructuring and its authority to issue new directions would end effective March 12, 1999. During its tenure, the HSRC issued final directions to 22 communities affecting 110 hospitals. These directions amalgamated 45 hospitals into 13 and closed 29 hospital sites. Until March 2000, the HSRC will continue to monitor implementation of its existing directions, as well as provide advice to the Ministry on system integration.

As part of the restructuring process, the Ministry provides financial assistance to hospital corporations to assist in implementing the HSRC's directions. The Ministry's share of eligible restructuring costs is 70% for capital and 85% for operating costs. The remaining costs are the responsibility of the hospital or community.

IMPLEMENTATION OF CAPITAL PROJECTS

The HSRC has directed hospitals to undertake a total of 81 capital projects at a total recommended cost of approximately \$2.1 billion. The Ministry's March 1999 HSRC Project Status Report indicated that, based on hospital estimates, these capital projects could cost as much as \$3.9 billion. As shown in the following table, the Ministry's share of total estimated capital costs for hospital restructuring could increase to approximately \$2.7 billion from the \$1.5 billion originally estimated if the Ministry agrees that the additional costs are justified.

Summary of Hospital Capital Costs Resulting from HSRC Directions, May 1999

	HSRC's Original Estimate (\$ billions)	Hospitals' Preliminary Estimate (\$ billions)
Estimated Cost	2.1	3.9
Potential Ministry Share	1.5	2.7
Potential Hospital Share	0.6	1.2

Source: Ministry of Health and Long-Term Care

In discussing the causes and nature of the variations in estimates, we were informed by HSRC staff that the HSRC estimated the capital project cost for only those items directly resulting from its directions. HSRC staff believed that the additional estimated costs were not directly related to its decisions.

According to the Ministry, the projects approved to date are consistent with the HSRC's directions for service and bed requirements. However, where applicable, the funding approved by the Ministry took into account major variances from the HSRC's projected costs. These variances were attributed to factors such as:

- actual renovation costs per square foot being higher than estimated;
- additional square footage being required for displaced programs; and
- additional costs relating to upgrading heating and air conditioning systems.

From our review we noted that there have been significant delays in the approval and implementation of HSRC-directed capital projects. In the Ministry's budget for the 1998/99 fiscal year, \$271 million was allocated for hospital restructuring capital projects. However, actual capital expenditures during the 1998/99 fiscal year for HSRC-directed projects were approximately \$49 million.

According to the Ministry, the delays are due to the amount of time required for the Ministry and hospitals to agree on which components are directly attributable to the HSRC direction and 70% funded by the Ministry, and those components that are necessary to implement the project but are not HSRC-directed, which are funded at 50%.

The HSRC's goal was to complete all restructuring capital projects before its four-year mandate expired in 2000. However, based upon current information, the Ministry estimates that these projects will not be completed until 2003/04.

In March 1999, the Ministry noted the need for streamlining the processes for implementing HSRC directed projects. In March and April 1999, 18 projects received approval, bringing the total number of approved projects to 30. However, the Ministry was still waiting for hospitals to provide detailed plans for the remaining 51 projects.

Recommendation

To ensure the timely completion of capital projects to support the hospital restructuring process, the Ministry should work with the hospitals on streamlining the planning and approval process.

Ministry Response

The Ministry has taken initial steps to streamline the capital approval process. The Ministry commits to a review of the current process during the 1999/2000 fiscal year.

REIMBURSEMENT OF RESTRUCTURING EXPENSES

To assist hospitals with the financial cost of implementing restructuring directions, the Ministry committed \$834 million over a five-year period to reimburse certain operating costs incurred by hospitals. To qualify for reimbursement, the costs incurred must be a direct result of the restructuring activity and not part of the hospital's normal ongoing operations. Eligible

one-time restructuring expenses include severance costs, employee benefit costs, legal fees, counseling and training costs for terminated employees, and consulting and auditing costs.

Our review of a sample of hospital restructuring operating cost reimbursement claims relating to the 1997/98 fiscal year disclosed the following:

- The review and approval of hospital claims for severance costs and employee benefits, representing 78% of total disbursements to date, were made with little supporting documentation or verification. Claims were approved based on ministry staff's knowledge of the hospitals and the perceived reasonableness of the claim.
- Ministry policy requires that all hospitals must have their restructuring costs audited by their external auditors. However, the Ministry has not reconciled the audited schedules, which are prepared on an accrual basis, with hospital claims for reimbursement, which must be prepared on a cash basis. We were advised that the claims were only used for the Ministry's calculation of cost per weighted case, not for reconciling the amount reimbursed.
- The Ministry reimbursed two hospitals a total of approximately \$100,000 for ineligible employee benefit costs. We were informed that the Ministry was in the process of recovering these overpayments.

Recommendation

The Ministry should ensure that hospital restructuring expenses are reimbursed in a consistent and equitable manner.

Ministry Response

The Ministry will take steps to improve the approval process to enhance the accountability of hospitals for accuracy and reliability of the information submitted for reimbursement of restructuring costs.

Due to the confidential nature of severance payments, hospitals have not been sending the Ministry complete data regarding severance costs. Ministry staff review the claims, are aware of the approximate number of staff terminated and are able to analyze the reasonableness of the claim.

IMPLEMENTATION OF HOSPITAL RESTRUCTURING

The success of hospital restructuring requires careful sequencing of changes. For example, investments in physical facilities and community resources need to be completed before hospitals can realize the savings from clinical and administrative efficiencies. In addition to HSRC directions, a number of hospitals have volunteered to undertake restructuring activities such as program transfers and sharing of administrative resources.

From our review of a sample of restructuring files, we noted that, in general, HSRC directions relating to hospital governance and amalgamations have been implemented as scheduled. However, many hospitals have been unable to realize the anticipated savings. In six

amalgamations, hospitals were combined without the corresponding integration of operations or rationalization of services. In one example, three hospitals were amalgamated to form a new hospital. However, delays in obtaining ministry approval for capital projects resulted in the three sites continuing to operate. The delays were attributed to complications in developing and approving the capital projects. Consequently, the new hospital has been unable to realize the anticipated \$40 million in annual savings.

We also noted that hospital downsizing or program transfers were frequently not accompanied by appropriate funding adjustments to the affected hospital's operating budget. Currently, the Ministry must negotiate any funding changes on an individual basis. This process has hampered restructuring in a number of hospitals. For example:

- In 1998, HSRC directed a hospital to close its 100 chronic care beds by the spring of 2000. However, we noted that the hospital, without obtaining ministry approval, closed all the beds two years early and used the approximately \$10 million in annual savings for other hospital services.
- While a hospital experienced cost increases totalling \$24 million after receiving patients transferred from a second facility, its annual operating budget was only increased by \$6 million. As a result, the recipient facility is projecting a 1998/99 deficit of \$19 million while the transferring facility has a surplus of \$1.1 million.

As noted earlier, the Ministry now estimates that many projects will not be completed until 2003/04. Consequently, the HSRC's term will expire before it can assess the effectiveness of the restructuring process in achieving its financial and operational goals. Experience in other jurisdictions that have undertaken hospital restructuring indicates the importance of evaluating the process both during and following implementation, so that the necessary corrective action can be taken.

Recommendation

To ensure that the benefits from restructuring are realized, the Ministry should:

- **develop a standard process to determine the proper amount of funding required to support program transfers and amalgamations;**
- **develop a mechanism to periodically monitor and assess the impact of restructuring; and**
- **take any necessary corrective action.**

Ministry Response

Significant work has been done on the development of a standard process for funding adjustments for both program transfers and amalgamations. Discussion of the methodology with hospital representatives has led to refinements which will again be reviewed before being finalized. The present methodology is being used on an interim basis.

The methodology does include a provision for monitoring actual volumes compared to the funding adjustment volumes, and readjustment of the funding as needed. The Ministry will also use the report card methodology to review the state of restructuring. As well, since the Ministry will be decentralized, the regional structure will facilitate reviewing the impact on a local level.

If adjustments are needed, discussions with ministry staff will be initiated to resolve the problem with an agreed-to corrective plan.

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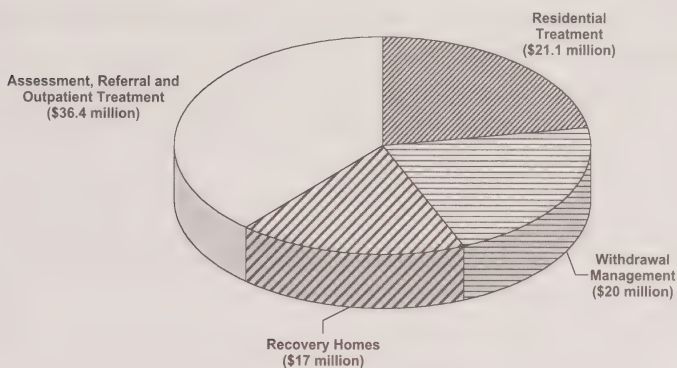
Ontario Substance Abuse Bureau

The Ontario Substance Abuse Bureau (the Bureau), which is part of the Ministry of Health and Long-Term Care's Community and Health Promotion Branch, is responsible for funding addiction treatment services in Ontario. These services are funded under the authority of the *Ministry of Health Act*. The Bureau's mandate is to reduce or eliminate substance abuse and other addictive behaviours.

The Bureau funds a range of direct treatment programs for people with substance abuse problems. During the 1998/99 fiscal year, the Bureau provided transfer payments totalling approximately \$94.5 million to 158 agencies to deliver drug and alcohol addiction treatment. Services provided by these agencies included:

- assessment and referral services, which help clients assess their addiction problems, health needs and treatment options;
- community-based outpatient services, which are designed to help clients develop the skills to manage their addictions and related problems;
- withdrawal management services, which help people who are intoxicated go through withdrawal from drugs or alcohol;
- residential treatment, which provides structured short- and long-term treatment and/or rehabilitation services for clients in a residential setting; and
- treatment in recovery homes, which provide residential services to clients who need supportive housing, vocational rehabilitation and other life skill supports to regain or maintain their health and allow them to make the transition to independent living.

Funding For Drug and Alcohol Treatment Services 1998/99 (Total \$94.5 Million)



Source: Ministry of Health and Long-Term Care

In the 1998/99 fiscal year, the Bureau also provided approximately \$3.5 million for problem gambling initiatives.

Based on information from the new Drug and Alcohol Treatment Information System, approximately 95,000 individuals were treated for addictions during the 1998/99 fiscal year. The most recent study estimated that the economic cost of substance abuse in Ontario in 1992 was as follows:

Economic Cost of Substance Abuse in Ontario in 1992

	Alcohol (\$ millions)	Illicit Drugs (\$ millions)
Direct Costs		
Health Care	442	39
Law Enforcement	528	134
Other Direct Costs	285	24
Total Direct Costs	1,255	197
Indirect Costs		
Productivity losses	1,602	292
Total Costs	2,857	489

Source: Addiction Research Foundation sponsored study

This estimate does not include the costs related to the abuse of prescription and other legal drugs. While no cost/benefit evaluations have been performed on substance abuse treatment services in Ontario, studies in another jurisdiction estimated savings to the taxpayer of \$5.60 for every dollar spent on treatment.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the Bureau were to assess whether the Ministry had adequate processes in place:

- to ensure that addiction treatment agencies were providing quality treatment and related services in an economic and efficient manner and in compliance with related policies and procedures; and
- to measure and report on the effectiveness of the Bureau in meeting its objectives.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants and accordingly included such tests and other procedures as we considered necessary in the circumstances. Prior to the commencement of our audit, we identified the audit criteria that would be used to address our audit objectives. These were reviewed and agreed to by senior ministry management.

In conducting our audit, we reviewed and analyzed program policies and procedures; interviewed ministry staff and outside experts in the substance abuse field, visited a number of agencies funded by the Bureau, reviewed relevant literature and researched the delivery of substance abuse programs in other jurisdictions. We also reviewed the work performed by the Ministry's Audit Branch. However, because the Branch had not issued any relevant reports on the program since 1995, we did not reduce the extent of our audit work. Our audit was substantially completed in April 1999.

OVERALL AUDIT CONCLUSIONS

The Ministry did not have adequate processes in place to ensure that addiction treatment agencies were providing quality treatment services in an economic and efficient manner. The delivery of addiction treatment services in Ontario has been the subject of a number of studies, yet action on recommendations has been slow. While the Ministry had initiated a process to provide a more coordinated and efficient system of treatment services, much still needed to be done.

- The Ministry needed to monitor whether its initiatives were increasing capacity to treat substance abuse.
- The Ministry was not adequately ensuring that services were provided economically and efficiently.

While the Ministry has developed a draft operating manual to ensure compliance with its policies and procedures, in a number of areas policies were not being followed. In particular:

- The Ministry did not have an appropriate transfer payment accountability framework in place.
- The Ministry did not approve treatment agencies' funding on a timely basis.
- The Ministry needed to ensure that addiction treatment agencies submit budgets for approval that more accurately reflect agency spending.

The Ministry also did not have adequate procedures in place to measure and report on its effectiveness in reducing or eliminating substance abuse and other addictive behaviours. Our major concerns were as follows:

- The Ministry had not developed performance expectations or benchmarks for treatment agencies.
- The management information system did not provide adequate information to enable the Ministry to monitor the performance of treatment agencies regarding costs and outcomes of services provided.
- The Ministry had not sufficiently reviewed the accessibility of treatment services or monitored waiting times to ensure all clients were receiving treatment that met their needs on a timely basis.
- The Ministry had not developed program standards relating to quality of service or complaint procedures of treatment agencies.

3.10

DETAILED AUDIT OBSERVATIONS

ECONOMY AND EFFICIENCY

RESTRUCTURING ADDICTION TREATMENT SERVICES

According to the Bureau, Ontario's addiction treatment services did not develop as part of an integrated system. Instead, the programs grew individually over the last 30 years, as communities tried to respond to people's health needs. A number of ministry-initiated studies have dealt with the structure of addiction treatment services. The studies often had similar recommendations for restructuring the delivery of treatment services. Although the Ministry had agreed with many of the recommendations, implementation has been slow.

For example, in a 1990 report produced by the Provincial Advisory Committee on Drug Treatment, *Treating Alcohol and Drug Problems in Ontario, A Vision for the 90's*, recommendations included a substantial shift in emphasis toward more cost-effective outpatient approaches and developing more multi-functional treatment agencies. A multi-functional agency has the potential to enhance the continuity of care and improve efficiency, for example, by reducing administrative costs and duplication of services. However, only one multi-functional agency has been created since 1990.

In 1996, the Bureau initiated a *Rationalization Project* to ensure that the highest quality services were being delivered at the best price and more expenditures were directed to frontline services. A major component of this project was restructuring service delivery systems across the province. Consultants were hired in October 1996 to work with six regional planning committees to prepare regional restructuring plans. In April 1997, the consultants made recommendations relating to the mergers of treatment agencies, the creation of multi-functional agencies, reductions in residential beds, reinvesting savings in additional services and timeframes for implementation. However, these recommendations had not yet been acted upon.

In January 1999, the Bureau published *Setting the Course, A Framework for Integrating Addiction Treatment Services in Ontario* "to lay out the steps Ontario can take to improve the quality of addiction services, increase the capacity of the system, coordinate services and make more effective use of addiction resources." This was the next step resulting from the consultants' reports. Again, the Ministry intends to use a multi-functional approach to achieve the vision stated in *Setting the Course*, which is that:

All people in Ontario with an addiction problem will have access to an integrated, client-focused system of evidence-based, cost-effective services to meet their diverse needs as well as the needs of family members and others affected by someone's addiction.

All ministry-funded addiction treatment agencies are expected to participate with district health councils (DHCs) in developing integrated addiction treatment service plans that demonstrate how each district intends to improve the delivery, monitoring and evaluating of services and identify opportunities to merge or amalgamate services.

In *Setting the Course*, the Ministry established June 30, 1999 as the deadline for the submission of DHC-prepared integrated service plans. However, *Setting the Course* contains no information on implementation or timelines for achieving its vision. While the Ministry acknowledged that mergers of treatment agencies could support and facilitate the integration of services which would better serve clients, *Setting the Course* does not address how the mergers of treatment agencies will be accomplished. We understand that while the DHC-prepared integrated service plans may include opportunities for mergers, the Ministry is not requiring mergers of addiction agencies as was originally intended.

For residential services, which include recovery homes and withdrawal management services and account for approximately 60% of the funding, the Bureau is undertaking a parallel planning exercise. Over the next few years, the Bureau intends to examine the services being offered and develop benchmarks to be used in the long-term restructuring of those services.

Because residential restructuring may be the source of a significant amount of funds for reinvestment, the Ministry needs an action plan, including a timetable for implementation.

Recommendation

To ensure that the treatment services funded by the Ministry are cost effective and meet the needs of their clients, the Ministry should:

- **act on those recommendations that it has acknowledged will improve service delivery; and**
- **develop a timetable for restructuring treatment services.**

Ministry Response

We agree that the Ministry should act on recommendations we have acknowledged will improve service delivery. As part of the rationalization process for addiction treatment services in Ontario, district health councils (DHCs) have been asked to take the lead in a planning process and are expected to submit plans for district-wide integrated addiction services by November 30, 1999.

DHCs are expected to base these plans on the principles outlined in the document Setting the Course which describe the steps to take to improve the quality of addiction services, increase the capacity of the system, coordinate services and make more effective use of addiction resources. In addition, the Guidelines for the Development of Integrated Service Plans, which were distributed in January 1999 to DHCs and participating agencies, clearly indicate how the DHCs should proceed in order to develop plans which reflect the principles outlined above.

We agree that there should be a timetable for restructuring treatment services. In the Guidelines, DHCs are expected to submit projected time lines for the implementation of integration. The Ministry will review these plans by December 1999.

The Ministry is committed to the three key roles set out by the Deputy Minister which include direction setting, accountability and enabling providers in the system. The principles set out in the document Setting the Course support these key directions.

TREATMENT EFFICIENCY

The 1996 *Rationalization Project* identified a number of strategies to increase treatment capacity and reduce waiting times, including:

- reducing the standard length of stay in short-term residential services from 28 to 21 days;
- implementing standardized admission and discharge criteria in all components of the treatment system in order to ensure that residential treatment services and recovery home services are admitting clients who require the level of care they provide;
- streamlining treatment assessment procedures;
- where appropriate, increasing group counselling in community services; and
- promoting greater innovation in the delivery of withdrawal management services.

In April 1997, the standard length of stay in short-term residential services was reduced to 21 days. In *Setting the Course*, the Ministry states that monitoring by the Bureau indicated that this had reduced the waiting times for these services. The Bureau intends to work with treatment providers and the Centre for Addiction and Mental Health to develop flexible lengths of stay for all residential programs, whereby individuals stay only as long as they need to rather than a specific number of days.

At the time of our audit, the Bureau had developed draft admission, discharge and referral criteria, and service definitions for use province-wide by treatment agencies. These criteria and definitions are important both for standardizing referrals and for clarifying the roles of different types of treatment agencies.

In the past, assessment referral agencies usually performed comprehensive client assessments. Clients referred for another treatment service were assessed again. At the time of our audit, the Bureau was developing an assessment protocol and tools to reduce the number of assessments performed.

In certain circumstances, group counselling may be as effective as individual counselling and is also less expensive. According to *Setting the Course*, the Centre for Addiction and Mental Health will provide training and support to help agency staff make the transition from individual to group work.

At the time of our audit, almost all withdrawal management services in Ontario were provided in a residential setting. Experience in other jurisdictions has shown that, with the proper support, many individuals can successfully withdraw (detoxify) at home. This approach can be less intrusive for clients and more cost effective than admission to a withdrawal management facility. The Bureau has recently completed a pilot study on the potential role of in-home withdrawal management that it intends to use in developing policy directions.

Recommendation

To help ensure that its initiatives to increase treatment efficiency are successful, the Ministry should assess the impact of these initiatives on service capacity and take corrective action where necessary.

Ministry Response

We agree with the recommendation to assess the impact of the initiatives developed on service capacity and where necessary to take corrective action.

Through the information generated by the Drug and Alcohol Registry of Treatment (DART), it will be possible to monitor length of stay for all residential programs and make adjustments to service requirements.

Admission, discharge and referral criteria and service definitions have been developed and distributed to agencies for use. Training sessions for each of these initiatives are planned for the fall and winter of 1999. As modifications are made to the Drug and Alcohol Treatment Information System (DATIS) and DART, these definitions and criteria will be incorporated into the data points so that all agencies will be using a common criteria for admission, discharge and referral, and a common service definition. By using these common criteria and definitions, referrals can be standardized and the roles of different types of treatment agencies can be clarified.

As agencies are trained and begin to use the common assessment protocol, the number of assessments performed will decrease because it will not be necessary to repeat an assessment as clients move from one agency to another in the stages of their treatment (that is, from residential treatment to community-based outpatient treatment).

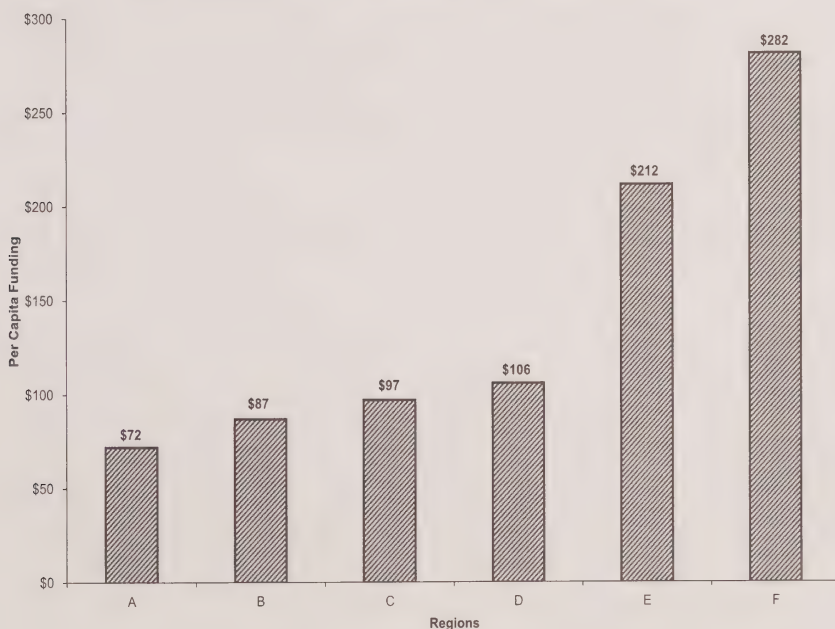
FUNDING

Making the most effective use of the resources available for addiction treatment requires that funding be allocated equitably to meet the treatment needs of clients across the province. It is also important to review how resources are used and identify opportunities to use them more effectively.

Agency funding is generally allocated based on the amount the agency requested in its first funding submission to the Ministry. Over time, this practice has resulted in funding inequities.

In 1993, the Bureau issued *Partners in Action, Ontario's Substance Abuse Strategy*, which recommended a review of the funding policy. However, this review was never undertaken. In 1998, an analysis by the Bureau identified funding inequities in the six health planning regions in the province. For example, regional per capita funding for addiction treatment services ranged from \$10.13 to \$44.74. More significantly, when taking into account estimates of the numbers of individuals who meet criteria for substance abuse or dependence (the in-need population), regional per capita funding ranged from \$72 to \$282 as follows:

Regional per Capita Funding Based on In-Need Population



Source: Ministry of Health and Long-Term Care data

Funding inequities translate into differing levels of services being available among and within regions. For example, using the most current estimates of the in-need population in the different regions, the available number of treatment beds per 1,000 in-need residents ranged from:

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- 1.9 to 9.1 beds for withdrawal management services;
 - 0.7 to 6.5 beds for short-term residential services; and
 - 2.1 to 12.9 beds for recovery homes.

Comparing the costs of treatment agencies providing similar services can assist in detecting funding inequities and in identifying whether services are being provided economically and efficiently. Useful indicators may be the cost per bed or the cost per client treated at withdrawal management centres, residential services and recovery homes. We compared the cost per bed and cost per client treated for the 1996/97 and 1997/98 fiscal years and found that:

- At withdrawal management centres, annual funding provided by the Bureau ranged from \$15,000 to \$102,000 per bed and averaged \$36,000 per bed. The cost per client treated ranged from \$127 to \$1,550 and averaged \$560 per client.
- At short-term residential services, annual funding provided by the Bureau ranged from \$25,000 to \$57,000 per bed, with the average being \$37,000. The cost per client treated ranged from \$1,700 to \$7,000 and averaged \$2,430 per client.
- At long-term residential and recovery homes, annual funding provided by the Bureau ranged from \$18,000 to \$73,000 per bed, with an average cost of \$21,000. The cost per client treated ranged from \$4,000 to \$18,000 and averaged \$6,650 per client.

While the cost of residential services is expected to vary due to diverse client needs, the nature of the services provided and the size of the agency, the Bureau had not determined if these wide variations were justified.

Our analysis also indicated that there were apparent funding inequities for assessment, referral and outpatient agencies, which accounted for nearly 40% of the total funding by the Bureau. For example, based on estimates of the in-need population, yearly per capita funding among regions for outpatient services ranged from \$23 per person to \$110 per person.

Recommendation

To help ensure that services are provided economically and efficiently, the Ministry should:

- **assess whether the current distribution of funds is commensurate with the value of the services provided;**
- **compare the costs to provide services among similar treatment agencies; and**
- **develop a plan to redress any funding inequities.**

Ministry Response

We agree with the recommendations. As a first step, the Ministry is currently undertaking a review of residential services which will include an assessment of the cost of those services, the number of clients serviced and the type of programs offered. Recognizing the need to ensure that funding is used for direct services to clients, the Ministry is continuing to monitor central administration, program administration and direct service costs. The Ministry can also compare similar services using this monitoring. In addition, through the Drug and Alcohol Treatment Information System, it is now possible to confirm service utilization at individual agencies and, when linked with budget information, assess and compare the actual costs of similar services.

3.10

COMPLIANCE

AGENCY ACCOUNTABILITY

The majority of addiction treatment services are delivered by community-based organizations with volunteer boards of directors. The Bureau needs an effective means of holding treatment agencies accountable for their use of ministry funds. Management Board of Cabinet's Directive on Transfer Payment Accountability requires an effective accountability framework for provincial transfer payments. The key principle is that transfer payments should be managed wisely and prudently. The four required elements of the framework are:

- defining expectations with respect to the objectives and results that the transfer payment recipient is to achieve;
- entering into an agreement which ensures that there is an understanding about the objectives and results to be achieved and the responsibilities for reporting performance;
- timely reporting of objectives and results achieved; and
- taking necessary corrective action on a timely basis.

Treatment agencies are required to submit annual operating plans and budgets for the upcoming fiscal year, including program objectives and numerical targets. For the previous year, agencies are required to report on their progress and outcomes for each objective and to plan corrective action for objectives that were not met. When reviewing the plans, the Bureau's program consultants are to assess the outcomes and targets set by the agencies along with the treatment services being funded.

The Bureau relies on the information in the operating plans as the basis for approving funding. From our review of a sample of operating plans, we noted that:

- Many agencies set program objectives that were either too general or too vague. For example, one residential agency's main objective was to provide residential treatment, ask clients to complete a questionnaire at discharge and continue to do follow-up questionnaires.

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- In the majority of cases, it was not clear whether program objectives had been met. Several agencies had not included measurable targets or outcomes and thus had no basis for determining whether or not they had achieved their objectives.

For example, in their plans for the 1997/98 fiscal year, several agencies did not indicate the projected number of clients to be treated. Therefore, no comparative analysis of the actual number of clients treated could be completed to determine whether significant year-to-year variances had occurred. Although the Bureau usually requires agencies to include client treatment targets in their operating plans, that requirement was omitted for the 1998/99 fiscal year. We understand this was due to an oversight.

During the 1997/98 fiscal year, the Bureau asked district health councils (DHCs) to review the proposed operating plans of treatment agencies in their districts. The DHCs commented that the type, scope and details of information in the operating plans varied significantly and recommended that the Bureau provide more clearly defined guidelines and process requirements.

We compared the operating plans with descriptions of agency programs and treatment services compiled by the Drug and Alcohol Registry of Treatment (DART), a centralized registry of information on treatment programs and services. We noted that 10 withdrawal management centres reported a total of 57 fewer treatment beds in their operating plans than were reported by DART. The Bureau was not aware of these discrepancies. Specifically, five centres collectively reported 33 fewer treatment beds than were recorded by DART, and five other centres had collectively converted 24 treatment beds to stabilization beds. The use and operating costs of stabilization beds are significantly different than those of treatment beds.

The external consultants who led the October 1996 rationalization exercise used DART's registry of treatment services as their database. However, many agencies indicated to the external consultants that DART's description of their treatment resources was inaccurate and many claimed to offer other services or services for specialized groups. This highlights the need for the Bureau to review the services being funded and the services actually being provided by treatment agencies.

Another required element of the accountability framework is entering into an agreement with the treatment agencies. The agreement should ensure that there is an understanding of the objectives and results to be achieved and the responsibilities for reporting performance. The Bureau's draft operating manual, prepared during the 1996/97 fiscal year, requires service agreements with all treatment agencies outlining the Ministry's expectations for each agency. A draft service agreement was developed in late 1996 but could not be finalized until approved by the provincially appointed Red Tape Commission. The Bureau submitted the agreement to the Commission in early 1997. At the time of our audit, the Bureau was still waiting for a response from the Commission. Accordingly, no agreements were in place.

In reviewing the draft service agreement, we noted that it did not include a requirement for agencies to submit data to the Ministry's Drug and Alcohol Treatment Information System or DART, and it did not require agencies to meet any developed program standards, quality of care standards or service outputs or outcomes.

Recommendation

To better hold addiction treatment agencies accountable for the services provided and the prudent management of the funds they receive, the Ministry should ensure that all basic elements of a transfer payment accountability framework are appropriately addressed.

Ministry Response

We agree with the recommendation. As a first step, the Ministry is in the process of developing a service agreement template for all community health transfer payment agencies.

Compliance with the terms of the service agreements, including performance expectations and the submission of accurate and timely data to the Drug and Alcohol Registry of Treatment (DART) and the Drug and Alcohol Treatment Information System (DATIS), will be made a condition of continued funding for addiction treatment agencies.

The Ministry will continue to monitor programs through regular program visits (at least once per year) and the review of annual operating plans and budgets, audited financial statements, settlement forms, and DART and DATIS submissions. The Ministry is developing a standard form to be used to document program visits.

Program reviews will continue to be conducted on programs at risk of non-compliance with ministry expectations of transfer payment agencies (for example, non-submission of financial or program information, or client or staff complaints indicating problems within the agency).

FINANCIAL APPROVALS AND REPORTING

The Bureau's draft operating manual requires all treatment agencies to submit an annual operating plan and budget and to identify other sources of revenue related to bureau-funded programs. All agencies are also required to submit quarterly operating reports for the second and third quarters of each fiscal year. The quarterly reports are used to explain any significant variances between projected and actual expenditures.

At year-end, all treatment agencies are required to submit settlement forms and audited financial statements. The purpose of the settlement process is to report all revenues and expenditures related to programs funded by the Bureau. Any surpluses or ineligible expenditures are to be recovered by the Bureau.

We reviewed a sample of agency program files for the 1996/97 and 1997/98 fiscal years, and noted that:

- The Bureau approved agency budgets late in the fiscal year. For example, the majority of budget approval letters for the year ending March 31, 1997 were sent to agencies in February and March 1997.

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- Several agencies used bureau funding for expenditures that had not been included in their approved budgets. For example, one agency was allocated \$70,000 for rent but used the funds for cleaning and household repairs. The same agency was also allocated \$12,000 for property taxes but used the funds for vehicle leasing and operating expenses.
 - Several agencies did not report other sources of revenue. For example, during the budget process for the 1996/97 and 1997/98 fiscal years, one agency identified an estimated \$275,000 per year of other revenues. During our audit, we noted that the revenues had not been disclosed on the year-end settlement forms. As a result, the agency may have been overfunded by approximately \$275,000 in each of the two years. At our request, the Bureau contacted the agency. However, by the end of our audit, the Bureau had taken no action to address the possible overpayment.
 - Although required to submit non-consolidated financial statements, several agencies that received funding from other sources submitted consolidated financial statements. Accordingly, the Bureau could not determine whether its funds had been spent for the intended purposes.

Recommendation

To improve the usefulness of the financial approval and reporting process of addiction treatment agencies, the Ministry should:

- **review and approve budgets on a timely basis;**
- **ensure that agencies submit budgets for approval that accurately reflect agency spending;**
- **monitor all other revenue sources related to bureau-funded programs; and**
- **recover any agency surpluses.**

Ministry Response

We agree with the recommendation to review and approve budgets on a timely basis.

The Bureau will be requiring agencies to submit budgets that more accurately reflect their spending of bureau funding.

Agencies are permitted to have other sources of income. The additional income is often used to supplement bureau funding and/or to make purchases that are not covered by the Bureau.

The Bureau will be reviewing the "other sources of income" information and settlement forms, assessing whether additional explanation is required and/or whether an adjustment to the base budget is required.

PERSONAL NEEDS ALLOWANCE

In July 1996, the responsibility for recovery homes was transferred from the Ministry of Community and Social Services to the Ministry of Health and Long-Term Care. Although clients in recovery homes are no longer to receive provincial social assistance, the Ministry decided to provide a personal needs allowance (PNA) of \$112 per month to eligible individuals.

Each recovery home received funds for the personal needs allowance based on the number of beds funded by the Bureau. Unspent funds were to be recovered by the Bureau at year-end.

In December 1998, the Bureau surveyed all recovery homes and found that only \$800,000 of the \$1.2 million in PNA provided for the 1997/98 fiscal year had been allocated to clients. As of April 1999, the Bureau had not determined whether the unallocated funds had been recovered in the annual year-end settlement process or if agencies had used the funds for other purposes. The Bureau had not determined whether any PNA funds had not been allocated to clients for the 1996/97 fiscal year.

We reviewed the Bureau's reconciliation of PNA funding for the 1997/98 fiscal year and noted that approximately \$90,000 had been allocated for 68 beds that were either nonexistent or not funded by the Bureau. We also reviewed a sample of recovery-home budgets, year-end settlement forms and audited financial statements for the 1996/97 fiscal year that had been reviewed by the Bureau and found that:

- The Bureau had not noted that several recovery homes had over \$100,000 of unused PNA funding. These funds should have been returned to the Ministry.
- In some instances, it was not possible to determine whether PNA funding was used properly because the those funds were not segregated from normal operating expenses on the annual operating budget and settlement form.

Recommendation

To ensure that personal needs allowance funds are properly allocated and utilized, the Ministry should:

- **compare the funding allocated to all recovery homes to an accurate inventory of bureau-funded beds; and**
- **reconcile the funding to actual expenditures and recover any surpluses.**

Ministry Response

We agree with the recommendation to compare personal needs allowance funding allocated to recovery homes to an inventory of bureau-funded beds and to reconcile funding to actual expenditures and recover any surpluses. This initiative will be implemented with the overall settlement process.

PROBLEM GAMBLING

In 1996, Cabinet approved a comprehensive strategy for the treatment, prevention and research of problem gambling in Ontario. The Ministry of Health and Long-Term Care was given primary responsibility for managing problem gambling programs. In 1999, the government commenced the installation of 6,600 slot machines at racetracks in 18 communities across the province. Commencing with the 1999/2000 fiscal year, 2% of gross slot machine revenues (a minimum of \$10 million annually) is to be allocated to expand problem gambling initiatives.

Since 1995/96, the Bureau has spent \$9 million on problem gambling initiatives, of which \$3.4 million was used for research and training treatment providers and \$1.5 million was allocated for the start up of a problem gambling hotline. In October 1997, the Bureau initiated funding to 44 treatment agencies that provide gambling-related outpatient treatment services. We reviewed these initiatives and noted that:

- The agencies were not required to submit operating or project reports detailing whether the funds were used as intended or the results achieved with the funding. We found no evidence that the Bureau had visited any agencies providing problem gambling services or reviewed any problem gambling programs.
- Agencies did not have to sign funding letters or service contracts detailing their roles and responsibilities or expected deliverables.
- The funding allocated to the 44 treatment agencies was based on a standard client load per staff. Many agencies reported that in the 1997/98 and 1998/99 fiscal years, the client load was less than planned. As a result, many agencies had excess funding for problem gambling.

Recommendation

To ensure that funding for problem gambling is properly managed and used as intended, the Ministry should:

- **develop service agreements for and require the submission of project reports from agencies providing treatment for problem gambling; and**
- **base funding for problem gambling services on the need for those services.**

Ministry Response

We agree with the recommendation. Service agreements for problem gambling will be made part of each agency's overall service agreement. Project reports will be an annual requirement.

A formula for establishing funding for problem gambling treatment services has been established to ensure equitable funding allocation where need exists.

MEASURING AND REPORTING ON EFFECTIVENESS

PERFORMANCE MEASUREMENT

Information about costs and outcomes is essential for assessing and improving the performance of treatment services and obtaining the best outcomes at the lowest possible cost. However, the Bureau did not have adequate information about the costs and outcomes of the services that it funds. The Drug and Alcohol Treatment Information System (DATIS), under development since 1994, recently began capturing demographic, health status and other information on clients using addiction treatment services.

At the request of the Ministry, the Centre for Addiction and Mental Health has developed evaluation tools that can be used to measure the costs and outcomes of different treatments. Depending on the results of a pilot study, those measures may be used across the addiction treatment system.

Information on costs and outcomes along with information on the client characteristics could be used to determine whether the higher costs of residential treatment are justified in terms of superior outcomes and if so, for which clients. It could also be used to establish performance expectations and benchmarks for different services and client groups. These expectations could then be incorporated in service contracts with individual providers, as is already being done in some jurisdictions.

At the time of our audit, no systematic information about the effectiveness and efficiency of the Bureau or the addiction treatment system was being reported to ministry senior management, the Legislature or the public. For the most part, such information had not been gathered or compiled. Other jurisdictions are using information systems similar to DATIS to report on the performance of their addiction treatment services.

Recommendation

To help ensure that addiction treatment services are provided efficiently and effectively, the Ministry should use cost and outcome information:

- **to develop and implement performance expectations and benchmarks for treatment agencies; and**
- **to measure and report on the effectiveness of the Bureau and the addiction treatment system.**

Ministry Response

We agree with the recommendation. When the results of the cost/outcome pilot are known, the Ministry will take steps to implement the above recommendation.

TREATMENT AVAILABILITY

ACCESSIBILITY

To address service gaps, agencies must be able to provide appropriate treatment to specific groups of clients. Certain populations, such as youth and older adults, need to be clearly defined to ensure their particular treatment needs are met. For example, according to treatment experts, services for youth must be tailored to reflect the various developmental stages of clients and must be seen as discrete and specialized.

Many treatment agencies define the population they serve as clients from 0 to 99 years of age. However, agencies that treat clients from 0 to 99 years of age do not necessarily offer specialized treatment for youth or older adults. As a result, these groups are often treated in settings that are not appropriate or effective. For example, a 16-year-old client could be referred to an agency that claims to provide services for clients between 0 and 99 years of age. However, if the treatment services offered do not meet that individual's needs, the client must seek specialized treatment either at another agency or not at all. We noted that, while the Bureau defines youth as age 12 to 24 years, the age range for youth has not been standardized at the treatment agencies.

The first priority of the Bureau's current planning for residential services is to be the unmet needs of special populations such as youth. The Bureau, in collaboration with district health councils and treatment agencies, intends to review the need for residential services for youth and identify opportunities to enhance existing youth facilities or convert adult facilities.

Recommendation

To ensure that all clients seeking treatment for addictions are adequately served, the Ministry should clearly define client populations with special needs and ensure that services are provided to meet those needs.

Ministry Response

We agree with the recommendation. District health councils have been asked to include in their integrated plans a description of the populations with special needs in their districts and strategies for addressing those needs. In addition, the Bureau, through the annual operating plans, has requested that agencies indicate which populations they are currently serving and how much of the budget is allocated to those programs. Data from the Drug and Alcohol Treatment Information System can also be used to indicate which populations are currently being served by which agencies. In this way, the Ministry will have a baseline from which to monitor service for populations with special needs.

WAITING TIMES

Starting in 1991, the Ministry has funded the development of the Drug and Alcohol Registry of Treatment (DART), a centralized registry of information on treatment programs, the availability of treatment services, waiting times and program access information. DART also serves as an information and referral service for service providers and the public. DART was designed to assist in finding suitable addiction treatment within Ontario.

Since 1996, all agencies funded by the Bureau have been required to validate, on an annual basis, the treatment services they provide and forward this information to DART. In addition, all agencies except withdrawal management centres are required to provide treatment availability information at established intervals.

We reviewed the treatment availability information and validations submitted to DART for the 1997/98 fiscal year and noted that the majority of outpatient agencies had not reported treatment availability. Many agencies had not reported in three years. In addition, several agencies had not submitted their validations.

Waiting times can flag potential problems at agencies or indicate funding disparities. However, the Bureau does not receive waiting time information on a regular basis. We reviewed waiting times for agencies providing similar services and noted significant variations. For example:

- For short-term residential facilities, the waiting times ranged from one day to 60 days, with the average being 22 days.
- For recovery homes and long-term residential facilities, the waiting times ranged from one day to 76 days, with the average being 17 days.

Without waiting time reports, it is not possible to determine the reasons for significant variations. One potential cause of long waiting lists could be the length of stay at some agencies. The reported length of stay at recovery homes ranged from 50 to 210 days with the average being 90 days. We noted that the five agencies with the longest waiting times also had the longest lengths of stay.

Recommendation

To ensure that the Drug and Alcohol Registry of Treatment (DART) contains the data needed by the Bureau to properly monitor waiting times and the availability of services, the Ministry should:

- **ensure all treatment agencies submit treatment availability information and validations of treatment services to DART; and**
- **regularly review waiting times for all agencies to assess whether there are any regional inequities in available treatment services and as indicators of the need for agency reviews.**

Ministry Response

We agree with the recommendations. For example, compliance with the requirement to submit accurate and timely data to both DART and the Drug and Alcohol Treatment Information System will be a requirement for continued funding in the addiction treatment agency service agreement.

The Ministry will monitor waiting times at agencies through information supplied to DART as one of the indicators of need for services and possible need for an agency review.

MONITORING AGENCIES

PROGRAM STANDARDS

We would expect program standards to be in place establishing performance expectations or processes for the efficiency and effectiveness of services. Other jurisdictions in North America already have standards for addiction treatment services including standards for quality of care. Accrediting bodies have also developed standards for treatment services.

In its 1990 report, *A Vision for the 90's*, the Provincial Advisory Committee on Drug Treatment recommended the development of treatment standards and an ongoing monitoring and evaluation process to assess compliance. The Bureau's *Partners in Action, Ontario's Substance Abuse Strategy*, issued in 1993, included as an objective the implementation of province-wide standards for the quality of care. At the time of our audit, the standards that had been developed and included in the Bureau's draft operating manual dealt only with agency organizational requirements, program reporting and financial management.

The 158 agencies funded through the Bureau are subject to periodic program reviews as a condition of funding. These reviews are intended to focus on the quality of program management, attainment of program objectives and client outcomes. Until 1995, agencies' programs were reviewed every three years. We understand that the Bureau discontinued this practice due to a lack of staff resources and the belief that targeted reviews achieve greater value for money. However, since the 1996/97 fiscal year, the Bureau has completed only three program reviews; three additional reviews were in progress at the time of our audit. These program reviews were all initiated in response to serious complaints about the agencies being reviewed.

Before the Bureau can assess the quality of the services it funds and determine whether it is receiving value for money, it must develop program standards. However, in many areas the Bureau did not have standards against which programs could be evaluated. For example, the Bureau requires agencies to have an adequate number of experienced and qualified staff to carry out their mandate. However, it had no standards stating what staff experience or qualifications should be or what constituted an adequate number of staff.

While the implementation of the cost and outcomes component of the DATIS information system would greatly assist in monitoring treatment services, the Bureau should make full use of currently available information in order to focus on reviewing those agencies with the

highest risks of non-compliance. This information includes reports from DART and complete information about complaints as well as agency budgets and operating plans.

Recommendation

To help ensure that high quality services are provided by addiction treatment agencies, the Ministry should:

- **develop standards against which programs can be evaluated; and**
- **implement a regular program review function, focusing on those agencies where the risk of non-compliance is greatest.**

Ministry Response

The Residential Strategy Subcommittee of the Ontario Addiction Service Advisory Committee is in the process of developing standards for residential treatment. Draft standards are expected in March 2000.

Following the work of the Residential Strategy Working Group, the Ministry will work with representatives from the field to develop program standards for non-residential programs.

We agree with the recommendation to review agencies where the risk of non-compliance is greatest. Currently, bureau staff visit agencies at least yearly, meet with the executive director, agency staff and board members. During these visits, the consultant can gain information about an agency's risk of non-compliance. In addition, a program review may be triggered by a complaint or an irregularity in financial reporting.

COMPLAINTS

Complaints can alert the Bureau to possible problems at a treatment agency. With the elimination of regular program reviews in 1995, the Bureau now relies primarily on complaints to determine whether an investigation or review of an agency is warranted.

We found no procedures to record complaints received by the Bureau or to ensure that they were adequately followed up. In addition, the Bureau did not maintain complaint histories for agencies. We reviewed agency files and found no evidence to indicate that the Bureau's staff had adequately followed up on 50% of the complaints made against agencies. For example, an allegation that an agency had used bureau funds for other purposes resulted only in a follow-up meeting. No detailed financial review was conducted.

While individual agencies may have procedures to address complaints, the Bureau has no assurance of the adequacy of these procedures. In addition, because the Bureau does not require agencies to provide information on the number, nature and resolution of the complaints they receive, it may not be aware of serious complaints made about agencies.

The Bureau also has no program standards dealing with the rights of clients. Clients need to know their rights and the roles and responsibilities of treatment agencies and the Bureau.

Currently, clients may not know that they can complain to the Bureau. Some other jurisdictions have established client rights and procedures to ensure that client rights are respected.

Recommendation

To ensure that complaints are dealt with appropriately, the Ministry should:

- **develop adequate procedures to deal with the complaints it receives;**
- **require treatment agencies to inform the Bureau of any complaints they receive and how those complaints were resolved; and**
- **establish program standards for agency complaint procedures and client rights.**

Ministry Response

It should be noted that as standard practice, follow-up occurs on all complaints. However, documentation standards for follow-up will be developed and implemented.

We agree that agencies should be required to inform the Bureau of complaints they receive and how those complaints were resolved. Follow-up procedures will be incorporated into documentation standards.

The draft operating manual is being revised and the format for incident reporting will be outlined. The original draft operating manual was sent to all agencies in April 1999. The covering letter alerted agencies to the requirement for reporting incidents. In addition, a template to record complaints, concerns and incidents is being developed. The information will be kept centrally as well as in individual agency permanent files.

OTHER MATTER

PREVENTION

Many different organizations are engaged in activities related to the prevention of addiction to drugs and alcohol. For example, local public health authorities are required to engage in specific prevention activities under a mandatory provincial program, while the Ministry's Health Promotion Branch provides \$2.4 million annually and has committed to provide \$12 million over the next five years for prevention to agencies in 21 high-risk communities.

Another ministry-funded agency, the Center for Addiction and Mental Health, estimates that it spends roughly \$3.5 million annually to support prevention activities. The Ministry also provides \$225,000 annually for the Alcohol, Cannabis and Tobacco Health Promotion Project for Youth (ACTION).

We found no evidence of an overall strategy for the prevention of addictions. Although individual activities may have been evaluated, there has been no assessment of the overall effort.

While the Bureau is responsible for coordinating government-wide planning and policy on substance abuse issues, its role regarding prevention is not clear. In most jurisdictions we surveyed, the organization responsible for addiction treatment was also responsible for prevention. This arrangement takes advantage of specialized knowledge about addictions

Recommendation

To help ensure that prevention activities are having the intended result of decreasing addictions to alcohol and drugs, the Ministry should:

- clarify the role of the Ontario Substance Abuse Bureau with respect to prevention; and
- assess the effectiveness of all of its current prevention efforts.

Ministry Response

The Bureau's primary role is the funding for treatment for addictions to drugs and alcohol. The problem gambling strategy contains a commitment to prevention through public awareness and education. Activities in this area are being initiated in the 1999/2000 fiscal year as the base funding for problem gambling has increased to allow for this activity to occur.

The Ministry recognizes the value of prevention in dealing with substance abuse issues and supports the activities undertaken by the agencies it funds. The Ministry agrees that the effectiveness of its prevention efforts should be assessed.

MINISTRY OF MUNICIPAL AFFAIRS AND HOUSING

Non-Profit Housing—Capital Reserves

The Ministry of Municipal Affairs and Housing is responsible for administering the province's social housing programs, including the non-profit housing program. With the passing of the *Social Housing Funding Act, 1997*, and as part of the Local Services Realignment initiative, responsibility for funding the costs of social housing programs was transferred to municipalities effective January 1, 1998. Subject to legislative approval and the finalization of a new agreement on social housing with the federal government, responsibility for the administration of the programs is to be transferred to municipal organizations.

The key objectives of the Ministry's 1998/99 Business Plan with respect to social housing include:

- cost-effective administration of existing non-profit housing during the transition to municipal administration;
- reformed and simplified social housing programs to facilitate municipal administration; and
- establishment of a framework of provincial and federal standards and processes for municipal delivery.

Recommendations for reforming and simplifying the administration of the social housing program in preparation for its transfer to municipalities were issued by the Minister's Social Housing Committee in November 1998.

Until responsibility for program administration is transferred, the Ministry's Housing Operations Division, through its seven regional offices, continues to oversee the funding and operations of more than 1,100 cooperative, private and municipal non-profit housing providers (providers) and to bill municipalities for the subsidies and administrative costs. These providers receive subsidies totalling close to \$800 million annually to operate some 2,200 properties containing almost 100,000 rental units for singles, seniors and families. Over 75% of these units were built between 1988 and 1994.

Under operating agreements with each provider, the Ministry requires a portion of the annual operating subsidy to be contributed to a separate capital reserve fund established by the provider and stipulates how these reserve funds may be invested and spent. However, from June 1992 until late 1997, a moratorium was placed on capital reserve funding, suspending the Ministry's annual contribution to the funds in order to constrain rising subsidy costs. Only

project-specific payments to cover emergency repairs were made to providers during those years.

As part of the Local Services Realignment initiative, the current government decided to make a special lump-sum payment to restore the reserves. The Ministry paid \$173 million to providers in late 1997 and, in the spring of 1998, the federal government paid a further \$31 million to providers of cost-shared projects. The Ministry also restored its annual reserve contribution, which forms part of the annual operating subsidy to providers that is recovered from municipalities. For the 1998/99 fiscal year, the reserve contribution was over \$42 million. By the end of 1998, providers held capital reserves estimated at \$340 million.

As of March 31, 1999, the province's share of mortgage guarantees on non-profit housing properties totalled about \$7.5 billion. These guarantees will remain once administrative responsibilities have been transferred to the municipalities. The province will therefore retain significant financial risks and will have an ongoing financial interest in the fiscal health of non-profit housing providers and the condition of their properties.

3.11

AUDIT OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Ministry had satisfactory systems and procedures in place to ensure that capital reserve funds were managed prudently and in compliance with operating agreements and ministry requirements, including procedures to report on the effective use of funds to preserve the condition of non-profit housing assets.

Our assessment was based on audit criteria that ministry management agreed are appropriate for prudent and effective management of capital reserve funds. Principally, it is important for the Ministry to ensure that:

- funds are provided and spent based on a reliable assessment of need;
- funds are managed and invested wisely until they are needed;
- providers monitor and maintain the condition of their properties; and
- funding conditions are fully complied with.

Our audit was conducted in accordance with professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Specifically, our audit included visits to the Ministry's head office and to three ministry regional offices responsible for overseeing over half of all providers funded as well as site visits to a number of providers. Our work was conducted from September 1998 to February 1999 and focused primarily on activities occurring in 1998.

We reviewed related audit work recently completed by the Ministry's Audit Services Branch and used it to ensure that our audit avoided any duplication of effort. Also, to a limited extent, we relied on it in determining the nature and scope of our work. With respect to non-profit housing programs, the Branch's recent work had focused primarily on the costs incurred and procedures followed by the four largest municipal providers and by those providers identified as having significant problems.

OVERALL AUDIT CONCLUSION

We concluded that actions taken had not been sufficient to ensure the prudent management of capital reserve funds and the preservation of non-profit housing assets. Swift action is required to ensure that the capital reserve funds provided are managed and spent prudently in accordance with requirements and that the assets are cost-effectively maintained. In particular the Ministry should:

- track progress in addressing common deficiencies such as providers with under-funded reserves, generally poor investment practices, lack of preventive maintenance plans and building condition inspections, and poor purchasing practices;
- require providers to prepare and follow long-term capital plans that detail the nature, timing and amount of future capital expenditures based on competent assessments of the condition of their assets; and
- require greater pooling of capital reserve funds and other investment strategies to improve by millions of dollars the income earned on reserve funds and to reduce the incidence of borrowing from reserve funds for operating purposes.

In its November 1998 report, the Social Housing Committee stated that “The appropriate management and investment of capital reserves is critical to the long-term viability of social housing.” It made two recommendations aimed at ensuring that social housing is maintained in good condition and that capital reserve funds are appropriately invested and used. Aspects of their recommendations are consistent with some of the recommendations we have made.

DETAILED AUDIT OBSERVATIONS

MONITORING PROVIDER PERFORMANCE AND COMPLIANCE

As of June 1998, there were about 175 financial officers, housing administrators, and technical and support staff in the Ministry’s regional offices who were primarily responsible for advising non-profit housing providers and monitoring their activities and financial condition. Monitoring involves the review and approval of annual budgets, audited financial statements and information returns filed by each provider, and the calculation of subsidy adjustments based on the information received. This information includes details of capital reserve funds and transactions.

From our visits to regional offices and an examination of a sample of their files, we noted inconsistencies in the extent to which information received from providers was reviewed. Some regional staff were more thorough than others. In April 1998, in order to improve the quality and consistency of reviews, the Ministry issued further guidance to regional offices on the financial review procedures to be completed. However, few regional staff were following the guidance at the time of our visits.

Regional offices report to head office every two months on the status of information due to be received from providers as well as information received but not yet reviewed. The backlog of reports to be received and/or reviewed as at January 31, 1999 had been considerably reduced from prior years.

Regional staff also conduct on-site reviews of providers and the extent of their compliance with the operating agreement and ministry directives. Since our audit of the entire program in 1995, virtually all providers have been reviewed on site at least once. Following a special effort to complete the first cycle of reviews in 1997 and 1998, the most common deficiencies found were summarized, and a committee of regional office staff was formed to propose a consistent approach to the corrective actions to be taken. The status of providers found to be in difficulty was also regularly summarized and reported to head office for further action.

The results of our visits to a sample of providers in each region we visited were, in most cases, consistent with those of the operational reviews conducted by regional office staff. Regional offices generally relied on the external auditor appointed by each provider to determine whether the provider had complied with the terms of the operating agreement in the establishment and use of capital reserve funds. In particular, these auditors examined whether expenditures made from capital reserve funds were of a capital nature, as defined by the Ministry, and whether the funds were fully funded and their balances correct.

A review of management letters issued by external auditors suggested that these areas were being examined and reported on for provider board and ministry attention, although some were more comprehensive than others.

The Ministry has a non-profit housing information system that captures the financial information reported by all housing providers once the regional offices have reviewed and approved it. It also captures the status of information to be reported and reviewed. While the provider information cannot be captured quickly enough to facilitate timely monitoring of individual providers, the system could be used to track the success of actions taken over time by regional offices to address the problems identified by their reviews. However, head office was not using the system for this purpose at the time of our audit. Progress in addressing deficiencies such as those identified in the remainder of our report could be monitored and reported using the system.

Recommendation

To better ensure that non-profit housing providers are in sound financial condition and are complying with their operating agreements and related directives, the Ministry should use available information to track the progress of regional offices in addressing identified non-profit housing provider deficiencies.

Ministry Response

Due to other priorities such as devolution to municipalities and Year 2000 compliance efforts, no information system improvements are recommended at this time. However, to the extent that the necessary information can be easily extracted, the Ministry will use it to track progress. As well, the Ministry will:

- continue to monitor serious problems with providers through the Projects in Difficulty tracking process and ongoing operational reviews; and***
- establish policies and procedures for default management and recommend a process for dealing with projects with serious problems in the interim and in a post-devolution environment.***

ESTABLISHING CAPITAL PLANS AND PRIORITIES

In order to preserve the condition of housing properties and to extend their useful lives, it is important to periodically inspect their condition and to establish priorities for needed repairs. Since capital repairs often result in major expenditures, it is good practice to establish long-term plans and budgets for the nature, amount and timing of future capital expenditures. Capital expenditures, as defined by the Ministry, include:

- improvements that significantly increase the capacity, quality, efficiency or useful life of an existing capital asset beyond that expected when originally purchased;
- the purchase of new assets; and
- the replacement of existing capital assets or major building components.

The operating agreements with providers who own and operate properties built after 1985 did not require the preparation of capital plans or ministry approval for individual capital expenditures. In contrast, operating agreements under an earlier federal-provincial program stipulated that Canada Mortgage and Housing Corporation (CMHC) would not require approval of individual capital expenditures if the expenditures were included in the three-year capital plan previously approved by the CMHC and the provider's board. However, this program covered only about 10% of all non-profit housing units.

We found that less than 10% of the providers we visited had capital plans in place and only a further 10% were developing plans. Regional offices surveyed indicated that capital plans were not widely used by the providers they were overseeing.

One housing provider we visited had not yet established a capital plan even though one of its buildings was 14 years old. The provider had received over \$900,000 from the Ministry for its capital needs in late 1997 and had reserves totalling \$1.7 million as of October 1998. In recent years this provider had spent \$150,000 to replace 14-year-old windows, \$112,000 to replace 11-year-old appliances and \$120,000 to replace 8-year-old carpeting. None of these expenditures was supported by a business case to justify their necessity and priority to the board. In the absence of capital plans and business cases, the provider could not adequately

demonstrate that these expenditures were necessary at the time. As well, all of these replacements were made earlier than the Ministry's guidelines for their expected useful lives.

More than two thirds of the properties operated by non-profit housing providers were less than 10 years old and, therefore, relatively few had required significant capital repairs to date. However, capital expenditures can be expected to rise significantly in the not too distant future. While accurate current data were not available, we estimated that capital expenditures by providers increased from about \$5 million in 1997 to nearly \$18 million in 1998. Some of this increase was likely due to a backlog of work that arose during the moratorium on reserve funding.

The Ministry's allocation of the lump-sum payments to providers' capital reserve funds was based on a capital expenditure forecasting model developed by engineering consultants that considered the type, age and location of housing properties. That model was being used to determine ongoing annual contributions as well. Although the model provided a reasonable and expedient method of restoring the replacement reserve funding withheld in prior years, its adequacy for preserving the condition of non-profit housing stock can only be assessed once reliable condition assessments have been completed and appropriate capital plans prepared.

In that regard, although the Ministry was planning to conduct technical audits of non-profit housing properties, none had been scheduled at the time of our audit. As well, the Social Housing Committee recommended that technical audits be conducted to determine the condition of all social housing stock in Ontario to establish a basis for determining the appropriate level of funding for capital reserves.

Another important reason for having capital plans is to be in a position to estimate the timing of significant future cash requirements. Proper forecasting of cash flows would permit effective investment strategies to be employed for the significant amount of funds providers have recently received.

Recommendation

To ensure that capital reserve funds meet priority needs and are spent prudently, the Ministry should:

- **require non-profit housing providers to prepare multi-year capital plans based on reliable assessments of the condition of their properties; and**
- **provide clear direction to non-profit housing providers on good practices for establishing capital expenditure priorities and for preparing business cases to justify major capital expenditures.**

Ministry Response

Current operating agreements do not contain such requirements, and so the Ministry's ability to ensure compliance with such directions is unclear. The Ministry fully supports this approach and agrees that multi-year capital planning, prioritization and business cases are good practices.

The Ministry will:

- **examine current approaches/best practices of some experienced social housing providers (including those in other jurisdictions) which could be passed along to others;**
- **devise an appropriate plan to communicate both the value of, and tools for, developing such plans to non-profit providers; and**
- **link this recommendation to the proposed program reforms currently being assessed/analyzed by the Ministry.**

INVESTMENT OF CAPITAL RESERVE FUNDS

The operating agreements between the Ministry and each housing provider together with the Ministry's accounting and administrative requirements for providers stipulate the nature of the bank accounts and investment vehicles providers are permitted to use. The agreements also give the Ministry the right to require providers to pool their capital reserve funds with those of other providers and to approve any other investments providers wish to make.

We assessed the overall average rate of return on capital reserve funds held by housing providers over the three-year period from 1995 through 1997. As the following table illustrates, housing providers are, on average, earning far less on their capital reserve funds than even the average rates of return on the conservative investments permitted by the Ministry.

Investment Performance by Housing Providers

	For the Year		
	1995 %	1996 %	1997** %
Range of rates for authorized investments per ministry guidelines*	7.0 to 7.3	4.3 to 5.7	3.5 to 4.7
Average rate of return earned on capital reserve funds by housing providers	5.7	4.1	4.0

Source: Office of the Provincial Auditor

* The rates for comparison purposes came from Bank of Canada statistics. All rates are the average for conservative investments ranging from one-month banker's acceptances to five-year guaranteed investment certificates offered by trust companies.

** The average rate of return earned by housing providers in 1997 was determined from the 70% of providers that had filed audited financial statements that had been reviewed and approved by the Ministry at the time of our audit.

Our visits to providers found that at least 60% of them could have improved their investment returns if they had established more prudent investment strategies. In one case, the provider's own external auditor had reported that \$200,000 had been left in a non-interest-bearing bank account for an extended period.

The first 10 years of a building's life present the best opportunity to maximize investment returns and increase reserve funds. Capital expenditures are infrequent and early compounding of investment returns has a large impact on the amount of funds ultimately available to meet future capital replacement needs. About 65% of all non-profit housing properties are less than 10 years old. In testing a sample of providers with properties under 10 years old, we found that, on average, they earned even less than the average for all providers over the last three years.

One way to improve the rates of return on reserve funds is to pool them among providers so that professional fund management becomes economical. However, we found that pooling of funds was not a common practice. A few municipal providers pool their funds with the municipality or other local providers to improve returns. However, even some providers that have pooled funds or otherwise have significant funds to invest have tended to invest in lower yielding short-term securities despite little short-term requirement for the funds.

One large municipal provider had pooled its funds with those of other local providers and the regional municipality. The funds became part of the municipality's pooled investments. The rate of return for this provider in 1997 was over 7.3%, or almost \$2 million, compared with average returns on the highest ministry-authorized investments of 4.7% in 1997.

Another municipal provider had pooled funds and had received ministry approval to establish a less conservative portfolio of investments made up of 1/3 equity investments and 2/3 fixed income securities. Its board also met periodically with the fund manager to review and approve investment strategy. At 9.6%, its investment returns were over 5.6% better than the average earned by all providers in 1997. For perspective, each 1% improvement in investment returns yields over \$3 million annually of additional income based on estimated fund balances at December 31, 1998. A 5.6% improvement would therefore yield about \$17 million more revenue, not to mention the compounding effects in future years.

As can be seen in the following table, pooled fund returns have over the last three years consistently and often significantly exceeded the returns on investments endorsed by the Ministry.

Investment Performance by Large Municipal Providers

	For the Budget Year		
	1995 %	1996 %	1997 %
Range of rates for authorized investments per ministry guidelines	7.0 to 7.3	4.3 to 5.7	3.5 to 4.7
Average rate of earned by large municipal providers that pooled funds*	8.2 to 8.4	8.5 to 12.0	7.2 to 9.6

Source: Office of the Provincial Auditor

* The average rate of return earned by large municipal housing providers was determined from the audited financial statements for those years.

Pooling is not exclusive to municipal non-profit providers. In another region, a property management firm had received agreement from 13 smaller non-profit providers to pool their

funds and, at the time of our audit, was negotiating with a major financial institution to have the funds managed.

Recommendation

To improve investment returns on capital funds and thereby reduce the need for additional future government funding for capital improvements to non-profit housing stock, the Ministry should, as soon as possible:

- require non-profit housing providers not already doing so to pool their capital reserve funds and to have them professionally managed; and
- encourage non-profit housing providers to use capital plans for cash flow projections of future capital outlays to help optimize the mix of investments and maturity available to them.

Ministry Response

The Ministry agrees that not all providers are realizing the maximum return on investment possible and that the pooling and professional management of capital reserve funds could increase this rate of return.

The Ministry is actively reviewing the pooling of replacement reserves in response to both the Provincial Auditor's comments and a similar recommendation offered by the Social Housing Committee.

The non-profit sector organizations are expected to bring forward a proposal for ministry approval in the near future. The Ministry will review this proposal for pooling as it is developed and will frame its response in the context of devolution and the interests of the municipalities.

Pooling and the use of professionally managed funds will put a greater onus on the provider to have a capital plan and cash flow projections. The Ministry will consider these needs and its ability to impose these requirements when reviewing the proposal from the sector organizations.

UNAUTHORIZED USE OF CAPITAL RESERVES

Under the Ministry's operating agreements with housing providers, capital reserve funds must be maintained separately from other funds. The funds and any income from them are to be used solely for future capital expenditures.

Our analysis of information available at the time of our audit suggested that as many as 30% of providers might have borrowed from their capital reserves in 1997. A similar proportion of providers had also reported less cash and investments on hand than the amounts required to be in their capital reserve funds in 1995 and 1996.

To determine the extent to which providers had contravened their agreements and borrowed from their capital reserves, we tested a sample of providers reporting under-funded reserves from three regions. In about 60% of these cases, the providers had borrowed funds from

reserves for one to three years. Some providers had increased their borrowings over the period. Because the borrowed funds were not earning investment income, investment returns for these providers have under-performed even conservative investments.

For example, one provider we examined had increased its borrowing from capital reserve funds from \$47,000 in 1996 to \$100,000 in 1997 to \$139,000 in 1998. The regional office did not request the provider to prepare and submit a restoration plan until June 1998. The plan was finally received in November 1998. We understand that meetings were being scheduled for 1999 because the regional office was not satisfied with the plan.

A provider in another region had borrowed \$260,000 from capital reserves as of September 1995. The regional office requested a fund restoration plan from the provider in June 1996, in February 1997 and again in April 1998 but the capital reserve fund was still under-funded by \$139,000 in September 1998. In 1999 the regional office again asked the provider to submit a plan.

At least half of the providers with under-funded capital reserves, including the two above, have properties over 10 years old and are therefore more likely to require capital outlays soon. Regional staff have tried to address the problem by requiring providers to establish and submit restoration plans but we found that their efforts have had only limited success.

One of the regional offices we visited had adopted a more proactive approach with such providers. Experienced staff more thoroughly assessed the provider's practices and circumstances and worked with the provider to develop a workable action plan with timeframes and targets for progress. Staff at that office believed that such an approach was needed because some housing providers and boards lacked the necessary management and financial skills to effectively address their underlying problems. Such early intervention would help prevent the provider from experiencing even more serious financial difficulties.

We also understand that new procedures introduced by the Ministry in late January 1999 allow housing providers to apply for advances on their subsidies in cases of emergency. The new procedures require providers to demonstrate the need for funds and the options they have considered. Cases will then be reviewed by the regional office and subsequently submitted to the Assistant Deputy Minister for approval. The new procedures will help the Ministry to identify and assess providers experiencing financial difficulties and may help to reduce the incidence of borrowing from capital reserves.

Recommendation

To reduce the incidence of borrowing from capital reserve funds which will jeopardize the ability of non-profit housing providers to pay for future capital repairs, the Ministry should:

- **more thoroughly assess the underlying reasons why non-profit housing providers have borrowed from and not restored their capital reserve funds; and**
- **ensure that non-profit housing providers that have borrowed from their capital reserves develop and implement appropriate plans for restoring the reserve funds as quickly as possible.**

Ministry Response

The Ministry agrees with the recommendation and the goal of developing a strategy for more proactive tracking and management of projects with deficits that could lead to borrowing from reserve funds.

The Ministry will implement a new tracking procedure and guidelines to assist regions in managing projects with deficits by October 15, 1999.

PREVENTIVE MAINTENANCE AND INSPECTION

The benefits of a good preventive maintenance program include an increased service life for the facility, early identification and correction of deficiencies, and lower operating costs over the facility's life cycle. Accordingly, the Ministry's operating agreements with providers requires them to establish such a program.

The extent to which providers had formal preventive maintenance plans in place for each of their properties was assessed as part of the over 770 reviews of providers conducted by all regional offices in 1997 and 1998. These plans would normally detail the frequency of maintenance work required for various properties. Their results revealed that between 20% and 50% of the providers in the three regions we visited did not have preventive maintenance plans in place.

Our own visits revealed that almost half of the providers we visited lacked a preventive maintenance plan and several lacked routine inspection procedures to spot problems early and to ensure compliance with *Ontario Fire Code* and other requirements. During some of our visits to properties, we noted certain *Fire Code* violations which we reported to the provider and the regional office for follow-up. Preventive maintenance for health and safety is obligatory.

Our site visits indicated that preventive roof maintenance had been consistently neglected. Many providers we visited had failed to conduct and document roof inspections, and several had undertaken premature roof replacements or major roof repairs. One large provider we visited lacked a formal roof inspection process or checklist but had recently hired roofing consultants to perform roof condition assessments on five of its buildings. The consultants reported the need for major capital work on two roofs at a cost of about \$600,000. An additional \$300,000 of capital repairs was also identified but would have to be delayed. While roofs are expected to last 20 years according to ministry guidelines, the roofs replaced were only 11 and 15 years old. Early and regular inspection and maintenance might have prevented the premature replacements or identified construction deficiencies that should have been addressed by the builder.

A comprehensive roof maintenance checklist developed by the Ontario Housing Corporation could easily be shared with providers to help them conduct and record the results of roof inspections and to know what to expect from roofing consultants.

Windows are also being replaced earlier than expected at a few sites. One provider reviewed by a regional office in 1997 had replaced all the windows of a building in 1997 after only nine years at a cost exceeding \$160,000. A consultant had reported over a year earlier that the

window caulking, joints and wood surfaces were in very poor condition. Ministry technical staff also noted that regular inspections would have identified these problems earlier and that timely maintenance might have prevented the need for early replacement. The report issued to the provider by the regional office in November 1997 noted that the provider lacked a preventive maintenance plan.

Recommendation

To better ensure that non-profit housing providers properly maintain the condition of their properties and avoid costly, premature, major repairs or replacements, the Ministry should:

- re-emphasize the expectations under the operating agreement for non-profit housing providers to institute standards and practices that preserve their properties, including preventive maintenance programs;
- provide further guidance to non-profit housing providers on best practices such as the checklist for roof inspection and maintenance developed by the Ontario Housing Corporation; and
- ensure that any technical audits conducted on non-profit housing providers assess and report on compliance with the *Ontario Fire Code*.

Ministry Response

The Ministry agrees with the need to promote preventive maintenance and provide support for this endeavour.

Although technical audits were not conducted as part of the operational reviews, housing providers are given tools (for example, the Fire Log Book and Fire Safety Plan and Information Sheets from the Office of the Fire Marshal) to keep track of their obligation for checking equipment and maintaining fire standards.

The Ministry will:

- *reiterate to groups the need for preventive maintenance programs through regular operational reviews. This would also be included as part of the communications strategy developed to deal with the need for capital planning identified earlier; and*
- *continue to direct providers to available resources on preventive maintenance. These include Ontario Housing Corporation maintenance manuals and sector association training materials.*

Year 2000 / Information Technology Preparedness

The Year 2000 problem is caused by the way dates are recorded and computed. Many computer systems use a two-digit date field to represent the year, such as "98" for 1998. This format does not distinguish between 2000 and 1900. Computer programs that are not corrected to accommodate years after 1999 could process information incorrectly or fail to operate.

This problem affects a wide range of information systems, including systems that process payments and revenue collection as well as those that support health and safety services. It is also inherent in embedded systems. An embedded system is a device used to control, monitor or assist the operation of equipment. Many embedded systems, for example, medical devices, have clocks built into computer chips and if the computer clock is not Year 2000 compliant, the entire chip or piece of equipment may have to be replaced.

The Corporate Year 2000 Project Management Office, established by Management Board Secretariat (MBS) in 1997, is responsible for coordinating ministry efforts, monitoring progress, managing resource issues and reporting on overall progress to Management Board of Cabinet (MBC). It also regularly provides status reports to steering committees that comprise a cross section of deputy ministers and assistant deputy ministers. Each ministry is responsible for its Year 2000 readiness.

In December 1997, based on information submitted by ministries, MBC approved 63 mission critical projects to remedy computer systems that support critical ministry services and operations. The computer programs in these systems have to be converted to handle years after 1999, and the converted programs have to be thoroughly tested before implementation. These 63 projects were given first priority in the government's overall Year 2000 compliance efforts. MBC set December 31, 1998 as the target date for conversion of all mission critical systems. The target date for completing the testing and implementation of these revised systems was June 30, 1999.

Some of the systems included in the mission critical projects are:

- The computerized ambulance response system which supports ambulance dispatch.
- The Ontario Municipal and Provincial Police Automation Cooperative System that is used by many municipal police forces and the Ontario Provincial Police to report incidents, dispatch calls and access information from a central database.
- The social assistance income benefits systems that process income support payments amounting to over \$400 million per month.

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- The vital events registration system which is used to issue documents such as birth certificates that are needed for Ontario Health Insurance Plan coverage and social assistance benefits.
 - The maintenance enforcement computerized accounting system used to process family and custody support payments.
 - The tax collection systems that process revenue amounting to hundreds of millions of dollars monthly.
 - The government-wide data communication network.

In early 1998, we reviewed the status of the government's remedial efforts with a focus on mission critical projects. In our Special Report to the Legislative Assembly, *Year 2000: The Millennium Bug* (June 1998), we concluded that, as of March 31, 1998, the government needed to significantly pick up the pace of its Year 2000 compliance effort. We reported that much remained to be done in order to meet the MBC target date for system conversion. Other recommendations included:

- demonstrating senior management support and commitment;
- preparing detailed project plans;
- commencing work on examining and replacing embedded systems;
- taking measures to ensure sufficient staff with the necessary skills;
- implementing a quality assurance process;
- developing detailed test plans; and
- developing contingency plans.

In the six months leading to March 31, 1999, ministries identified 243 business critical projects to fix computer programs, embedded systems and infrastructure that directly support mission critical projects (Tier I), core businesses (Tier II) or internal operations (Tier III). The target completion date for the 180 projects in Tier I and most Tier II projects was June 30, 1999. Completion of these projects is particularly important as the failure of a Tier I or Tier II system can result in degradation of vital services or interruption of key businesses. Tier III projects were targeted for completion by September 30, 1999.

Some systems included in business critical projects are:

- The process control systems used by the Ontario Clean Water Agency in treatment plants.
- The food safety support system that maintains information about the safety of food products sold in Ontario.
- Systems used by the Ontario Financing Authority to manage currency and other financial risks on behalf of the Province.
- The liquor licensing system used to manage the registration of establishments that serve liquor.
- The asbestos registry system that maintains information on Ontario workers who are exposed to asbestos.

The government recognizes that the Year 2000 problem is a major business risk and that the conversion and testing of all affected systems and infrastructure is an enormous task. To address the possibility that the Year 2000 risk will not be contained by full implementation of revised systems and corrected equipment, MBC directed ministries to prepare contingency plans by June 30, 1999, to minimize the disruption of key government services caused by the millennium bug.

MBS also issued guidelines to ministries to assist in developing plans for addressing the Year 2000 risks in key parts of the broader public sector. Some examples of institutions in the broader public sector are:

- public hospitals;
- school boards;
- Children's Aid Societies;
- Liquor Control Board of Ontario;
- Ontario Lottery Corporation; and
- non-profit housing providers.

The cost of Year 2000 compliance for Ontario government ministries is estimated to range from \$350 million to \$400 million. In addition, the government has allocated \$324 million to hospitals, \$32 million to other health sector organizations and \$89 million to key parts of the broader public sector for system remedy and equipment replacement.

REVIEW OBJECTIVE AND SCOPE

Our objective was to review the status of the government's Year 2000 efforts and the project management processes the government has put in place to ensure that:

- the necessary remedies to achieve Year 2000 readiness are identified, tested and implemented; and
- contingency plans are developed to minimize disruption of government services and administration.

The scope of our review included following up on recommendations made in our June 1998 report, determining the status of mission critical and business critical projects and contingency plans, and assessing the government's procedures for supporting and monitoring the progress in key parts of the broader public sector.

We visited the Corporate Project Management Office and seven large ministries to review project documentation. We also discussed project information and progress with other ministries. Most of our review was carried out in March 1999. As such, the information presented in this report is based on the status of the government's progress as of March 31, 1999.

We had discussions with representatives of a number of large private and quasi-private corporations to obtain information about their Year 2000 project progress. We also conducted

extensive research on best practices. In addition, we engaged the services of three private sector consultants with expertise in Year 2000 project management practices to provide input during the key stages of our review.

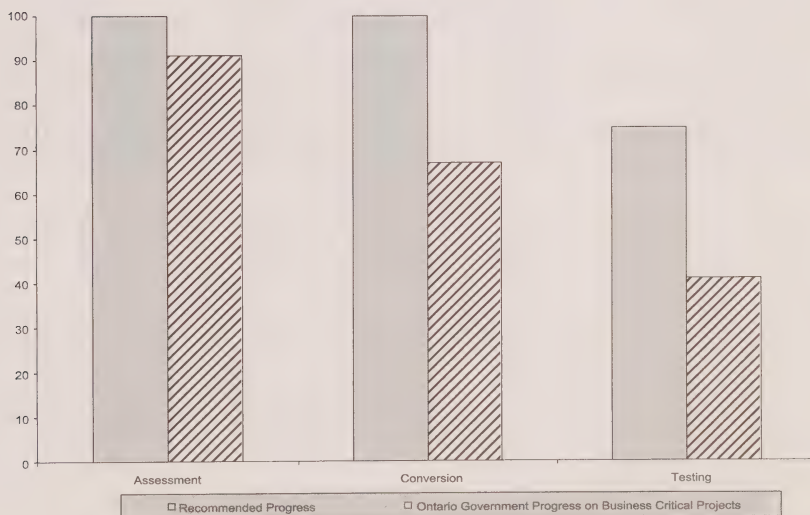
Most ministry internal audit branches had done very limited reviews of Year 2000 projects. We reviewed and relied on their work where relevant.

OVERALL REVIEW OBSERVATIONS

Significant progress had been made since our last review a year ago. However, we believe that the government still needs to significantly accelerate its Year 2000 compliance effort in a number of key areas. Closer attention and monitoring by ministry management and MBS are required to ensure that the necessary resources are devoted to mission critical and business critical projects. The government recognized that, as of March 31, 1999, seven mission critical projects and 49 business critical projects needed to be accelerated.

We compared the government's status with the progress that Year 2000 experts recommend be achieved as of March 31, 1999 for large public and private sector organizations. To illustrate this comparison, the following chart contrasts the government's cumulative progress on mission critical projects and business critical projects with the average of the rates of progress for key project phases recommended by sources such as The Industry Task Force on Year 2000 established by the federal Minister of Industry and the United States General Accounting Office.

**Recommended Rate of Progress for Large Organizations
vs.
Progress of Ontario Government
March 31, 1999**



The above comparison indicates that the government needs to accelerate its rate of progress.

To mitigate the risk of system failures, MBS directed ministries to develop contingency plans, following a common methodology, for key processes prior to June 30, 1999. As at March 31, 1999, only three ministries had made substantial progress toward completing contingency plans. Ministry senior management and MBS need to closely monitor the progress toward developing contingency measures and ensure that sufficient skilled resources are available.

We are also concerned about the progress of public hospitals. Thirty percent of these hospitals had not responded to a Year 2000 readiness survey conducted by the Ministry of Health, and 21 of the hospitals that had responded did not expect that their computer systems and medical devices would be ready by December 31, 1999. The Ministry should work with public hospitals to accelerate the progress of their Year 2000 compliance efforts.

IMPLEMENTED YEAR 2000 PRACTICES

Based on our research on best practices and our review of the government's project management process, we noted a number of sound practices that the government had implemented including several that reflect our earlier recommendations. Some of them are:

- Mission critical projects were identified and given first priority in the overall Year 2000 compliance efforts.
- Each ministry has assigned an assistant deputy minister to lead its Year 2000 projects.
- MBS and ministry senior executives have directed their staff members to give top priority to Year 2000 projects.
- Year 2000 project success is included in each ministry's business plan and the government's information technology strategy.
- Each ministry is submitting a monthly progress report to the Corporate Project Management Office.
- MBS has emphasized to ministries the importance of testing and provided guidance and funding to train staff.
- The Corporate Project Management Office coordinates the funding process to minimize the time required for preparing and reviewing requisitions.
- MBS has implemented an incentive compensation program for critical staff members who are dedicated to Year 2000 projects.
- MBS is working with ministries to implement a quality assurance program.

DETAILED REVIEW OBSERVATIONS

In mid-summer of 1999, we provided to the Corporate Project Management Office the above overall review observations as well as our detailed observations and recommendations on the following matters:

- mission critical projects;
- business critical projects;

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- contingency planning;
 - readiness of public hospitals;
 - Ontario Realty Corporation;
 - system certification; and
 - project plans.

In August 1999, we received progress and action-oriented responses to our recommendations.

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Overall Government Response

The government's priority through Management Board Secretariat has been to focus resources based on criticality and risk. Mission critical projects were given first priority, followed by business critical projects. Each project's progress is assessed monthly and is reported to Management Board of Cabinet using confidence ratings. Where acceleration is needed, Management Board of Cabinet requires the ministry to develop a specific detailed action plan to accelerate the projects.

To address the need for contingency planning, the government adopted a formal business continuity planning methodology. As of May 31, 1999, all ministries had started the business continuity planning process and had completed, or were in the process of completing, risk assessments, business impact analyses, and recovery strategies and procedures.

The Health Sector Year 2000 Project Office's mandate is to monitor and to facilitate the broader public health sector's progress toward Year 2000 readiness. A risk assessment focusing on overall Year 2000 readiness pertaining to remediation and contingency planning is being undertaken by the Health Sector Year 2000 Project Office which will continue to advise the hospitals of the urgency with which they need to take immediate and comprehensive action to ensure Year 2000 readiness.

MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES

Accountability Framework for University Funding

Ontario has the largest university system in Canada with 17 universities and the Ontario College of Art and Design. Their combined full-time enrolment was about 230,000 students as of September 1998. For the year ended April 30, 1998, the latest available, the universities had revenues of approximately \$4.5 billion. Those revenues were provided by grants from the former Ministry of Education and Training, student tuition and other fees, research grants, and other sources including donations and ancillary operations such as parking, bookstores and food services. University expenditures approximate their revenues each year.

Source of Universities' Revenues

	1998		1997	
	\$ million	%	\$ million	%
Ministry of Education and Training	1,660	37	1,659	39
Tuition Fees	1,255	28	1,174	27
Research Grants	796	17	758	18
Other e.g. donations, ancillary operations	799	18	673	16
Total	4,510	100	4,264	100

Source: Council of Ontario Universities

Universities derive their autonomy, academic freedom and degree granting authority from their incorporation statutes. Each university was created by its own legislation. While the statutes for two universities established only one governing body, 16 established a governance framework in which a senate is responsible for the university's academic affairs and a board of governors is responsible for its operations and financial stewardship. Although their roles are distinct, the two bodies must work together in order to govern the university effectively because most academic decisions have significant resource implications, and most resource decisions impact the delivery of academic programs and services.

Ontario's policy, funding and legislative arrangements, including the *Degree Granting Act*, effectively give universities a monopoly in providing programs leading to a degree. Therefore, to protect the consumer in the absence of competition, the Ministry has an obligation to ensure

that universities meet certain minimum standards through an effective accountability relationship between itself and the universities. Management Board of Cabinet's Directive on Transfer Payment Accountability also requires the Ministry to establish an effective framework for the prudent management of provincial transfer payment funds. Such a framework includes:

- setting expectations with respect to the objectives and results that the transfer payment recipient is to achieve;
- entering into an agreement which ensures that there is an understanding about the objectives and results to be achieved and the responsibilities for reporting on performance;
- timely reporting of objectives and results achieved; and
- taking timely corrective action where necessary.

Neither the universities' incorporation statutes nor the *Ministry of Colleges and Universities Act* provide the Ministry with direct authority over university operations or academic affairs. However, the Act provides the Ministry with the right to prescribe conditions governing the payment of grants. Thus, the Ministry can exercise significant indirect authority over universities by attaching conditions to the grants it provides. The most significant funding conditions control the maximum tuition fees that universities can charge and establish the minimum enrolment level that each university should maintain.

Responsibility for developing, planning, coordinating and implementing government policy and program guidelines for Ontario's universities rests with the Universities Branch of the Ministry's Post Secondary Education Division. At the time of our audit, the Branch had 29 staff who administered \$1.6 billion in operating, capital and special purpose grants to universities in the 1998/99 fiscal year.

It has been several years since our Office last examined aspects of university funding and accountability. As a result of concerns raised by our previous work, the then Minister created a Task Force on University Accountability which issued a report in 1993, *University Accountability: A Strengthened Framework*, containing recommendations for strengthening the accountability framework for Ontario universities. Most of those recommendations required actions to be taken by the universities themselves and were generally endorsed by the Minister.

In December 1996, The Advisory Panel on Future Directions for Postsecondary Education provided advice to the Minister on a number of issues including the funding of postsecondary institutions, student assistance, the roles of and linkages among colleges and universities, and ways to improve quality and accountability.

In May 1999, the Ontario Jobs and Investment Board presented a report to the Premier entitled *A Road Map to Prosperity*. Among its recommendations were ways to strengthen the universities' contributions to Ontario's economic performance.

AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess the extent to which the Ministry's accountability framework for university funding promotes the achievement of objectives including:

- program quality;

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- access;
 - responsiveness to changing educational needs;
 - cost effectiveness in the delivery of programs and services; and
 - sound financial management.

Our audit of the Ministry was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances. Our assessment was based on the following audit criteria, to which the Ministry agreed:

- The Ministry should have objectives for university grants and measurable goals to determine whether its objectives have been achieved.
- The Ministry should ensure that satisfactory governance and accountability frameworks are in place at the universities.
- The Ministry should ensure that: there are appropriate quality standards for publicly-funded programs; objective, reliable procedures exist to verify that program quality standards have been met; and appropriate corrective action is taken where deficiencies have been noted.
- The funding process should include clearly defined eligibility criteria for grants and should support the achievement of the Ministry's goals and objectives.
- The Ministry should obtain reliable financial and performance information, and perform the analyses required to determine whether: the university system is efficient and effective; institutions have the financial capacity to fulfil their commitments to stakeholders; its goals and objectives are being achieved; and its grant conditions have been fulfilled. It should take appropriate, timely action where deficiencies are detected.

Our audit focused on the activities of the Universities Branch. We reviewed recent work that had been completed by the Ministry's Audit Services Branch regarding financial controls over grants paid to universities and were able to rely upon it to reduce the extent of our audit.

The *Audit Act* does not provide the Provincial Auditor with access to the information necessary to perform value for money audits of universities. Instead, we requested the universities' cooperation in conducting a more limited review of their governance and accountability processes in connection with our audit of the Ministry. The presidents and boards of governors of five universities allowed us access to information beyond their accounting records and all but one of the remaining universities completed a questionnaire about their governance and accountability processes. The governors, senators, senior managers and faculty we interviewed were open and cooperative during our visits and provided all the information we requested.

We were also permitted to review the program quality assurance processes performed through the Council of Ontario Universities (COU). The COU is composed of the presidents of the province's universities and is funded by the universities.

As our work at the universities and COU was not an audit and consisted only of inquiry and discussion, and analysis of documentation and survey responses, we cannot provide a high level of assurance that the systems, policies and procedures described to us were 'working as

intended. We also cannot provide any assurance that the results of our visits to the five volunteer universities are indicative of all Ontario universities.

Our work was conducted from September 1998 to June 1999.

OVERALL AUDIT CONCLUSIONS

Although the Ministry has recently set some measurable objectives for postsecondary education and begun to collect some related performance information, these initial steps are not sufficient for the Ministry to determine how well the university system is meeting provincial needs and contributing to the achievement of postsecondary education objectives. We also concluded that the existing accountability framework for university funding did not yet meet certain aspects of the Management Board of Cabinet requirements for transfer payment accountability and that the Ministry had not linked funding to the achievement of provincial postsecondary education objectives.

In order for the Ministry to fully comply with Management Board of Cabinet's requirements for accountability and to better ensure that Ontario universities are meeting provincial needs and objectives, the Ministry needed:

- to establish expectations for university governance and accountability and encourage universities to report publicly on their key governance and accountability processes, including those aimed at ensuring program quality;
- to work with the university community to strengthen the processes established for objectively assessing the quality of programs;
- to obtain more and better information about the extent to which universities are meeting student and provincial needs, including trends and achievements in delivering programs in ways that reduce student need for financial assistance;
- to establish procedures to effectively monitor the financial condition of universities at risk; and
- to encourage and monitor improvements in universities' efforts to report publicly on their performances.

The five universities we visited had made a number of changes and improvements in recent years largely in response to the recommendations of the Task Force on University Accountability, provincial funding cuts and other changes. Significant improvements included: greater focus on strategic plans and priorities based on assessments of strengths, weaknesses and opportunities; better quality, clarity and analysis of the financial information provided to the governing bodies and the public; establishment of internal and external undergraduate program quality assurance processes; and the development and publication of institution-specific performance measures.

However, for the Ministry and other stakeholders to have confidence that universities are meeting provincial and institutional objectives cost effectively, university governing boards need:

- to set measurable objectives and targets, and report publicly on their achievement;

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- to formally evaluate their presidents' performances against established objectives and ensure that other senior managers are similarly evaluated; and
 - to better ensure that they are governing effectively by periodically evaluating board members and functions and by formalizing board member orientation, including the use of COU orientation material.

Overall Ministry Response

The Ministry welcomes the review and findings of the Provincial Auditor. The report is timely. The creation of the new Ministry of Training, College and Universities in June 1999 signals the priority that the government places on postsecondary education. The report of the Ontario Jobs and Investment Board (OJIB) also emphasized the importance of postsecondary institutions to the economic development of the province and made several recommendations with respect to universities. Particularly germane to the issue of university accountability is the OJIB recommendation for the establishment of an independent quality assessment organization for postsecondary institutions with a mandate to establish quality standards, assess programs against standards, and report publicly on quality related matters in postsecondary education. The Ministry currently is pursuing the potential of implementing this recommendation.

The Ministry is interested in ensuring that a sound university accountability framework is in place, and will use the Provincial Auditor's report as a basis for reviewing the current framework. As noted in the responses to the individual recommendations below, we recognize that some areas need strengthening, and the recommendations are helpful in this regard. At the same time, the Ministry is mindful of the institutional autonomy that is conferred upon the universities by their individual acts of incorporation and seeks to ensure that there is an appropriate balance between university autonomy and accountability for public funds.

DETAILED AUDIT OBSERVATIONS

UNIVERSITY GOVERNANCE AND ACCOUNTABILITY PROCESSES

The Management Board of Cabinet's Directive for Transfer Payment Accountability was revised in 1997 for the purpose of strengthening transfer payment accountability. However, at the time our audit was performed, ministries were required to comply with the previous version, issued in 1988. They must be in full compliance with the revised Directive by April 1, 2000. Until that date, ministries must comply with the revised requirements to the extent that it is

possible, reasonable and cost effective to do so. We found that the Ministry was not in full compliance with either the original Directive or the revised Directive at the time of our audit. For example, the Ministry's ability to determine whether the funds provided to universities were well managed was limited by a lack of agreed-upon measures of efficiency or effectiveness.

One of the revised Directive's requirements is that, prior to advancing any provincial funds, ministries require recipients to have in place the governance and administrative structures and processes necessary to ensure the prudent and effective management of public funds. To meet this requirement, ministries must establish minimum expectations regarding these areas. However, the Ministry had not established such expectations.

The report of the Task Force on University Accountability contained 47 recommendations designed to strengthen governance and accountability frameworks, most of which were directed at the universities. However, the Ministry has taken little action to determine the extent to which these recommendations have been implemented by the universities.

UNIVERSITY PROCESSES

The lack of clear ministry expectations for university governance and accountability would be somewhat compensated for if universities themselves had in place sound processes for ensuring good governance and proper accountability. Responses to the surveys indicated that effective governance processes were generally in place at those universities. Each of the five we visited appeared to have a number of good processes and procedures, the details of which were provided to the Ministry and the COU. Nevertheless, there were a number of areas where improvements needed to be made.

- Only two institutions had established formal risk assessment processes to be conducted by either the internal or external auditors for their audit committees and boards. In the absence of a rigorous process for identifying and controlling financial and operating risks, the possibility exists that management might, either knowingly or inadvertently, take significant risks without board knowledge or approval.
- The processes for measuring and reporting on performance were still evolving. The universities had only recently begun to report on their performance in achieving strategic goals, and only two we visited had established measurable performance targets. Efforts to date had been focused on developing and reporting trends in institution-specific indicators so there was little consistency in the way performance was measured. Comparisons with other institutions were therefore limited.
- In most universities we visited, the evaluation of the performance of the president and senior management was informal or infrequent. None of the boards had assessed the performance of individual board members. In the absence of appropriate performance evaluation processes, boards may retain ineffective management teams or board members who do not make an appropriate contribution to the governance of the institution. We noted that one university's board had developed a proposal to establish a governance committee whose mandate would include evaluation processes.

- All but one of the boards of universities we visited received summary information about their internal and external program quality assurance activities and results. However, the survey responses from six other universities indicated that their boards had no role in ensuring that quality reviews were completed for all academic programs and five indicated that they did not receive any reports on the results of reviews conducted. While senates have the primary responsibility for monitoring program quality, boards also need to obtain assurance that effective quality assessment procedures are in place in view of how critical program quality is to achieving a university's mission.
- The orientation process for new board members could be improved. More timely circulation to, and discussion with, board members of COU orientation materials and formalized internal processes would provide them with a sound knowledge about the overall university system as well as their institution's operations, past problems and current concerns, and help them perform their role effectively.

Recommendation

In order to be satisfied that universities have the governance and accountability processes required to ensure they meet provincial postsecondary education objectives, the Ministry should:

- **establish, in consultation with universities, expectations for university governance and accountability and encourage universities to report publicly on their governance and accountability processes;**
- **ensure that each university is periodically assessed against these expectations and where weaknesses are identified, confirm that the necessary corrective action has been taken; and**
- **notify other institutions of any best practices identified and encourage their implementation across the system.**

Ministry Response

In its work with the universities over the years, the Ministry generally has been confident that their governing boards are fulfilling the roles and responsibilities clearly delineated in each university's Act. The 1993 report of the Task Force on University Accountability recommended a variety of ways in which governance structures and processes could be strengthened, and we are aware that many universities have implemented significant improvements based on the Task Force recommendations. We recognize, however, that there could be more systematic reporting on the manner in which the boards are fulfilling their responsibilities.

Accordingly, the Ministry will undertake to work with the universities to solidify the Ministry's governance and accountability expectations, and related reporting requirements. We will look to the report of the Task Force on University Accountability as well as recent analyses of good governance practices for guidance in this initiative. This work will complement a recent initiative the Ministry has undertaken with the universities, through the

Council of Ontario Universities, to review and improve the universities' reporting requirements. The potential exists to expand this review to ensure that the Ministry is systematically included when the universities issue strategic planning reports, annual reports to their community, and so on. These reports will help the Ministry assess whether a more stringent monitoring role is required.

SETTING MEASURABLE OBJECTIVES

The Ministry has begun to establish measurable objectives for postsecondary education. Its 1998/99 Business Plan included the following two goals and the measures proposed to determine their achievement.

- **Program quality:** A postsecondary education system that offers high quality programs of instruction, which for universities will be measured by graduate outcomes (employment rates) and by student graduation rates (success in completing their programs). The Ministry committed to maintaining the highest ranking in Canada for full-time employment of university graduates and to improving its third place ranking for the proportion of university graduates employed either full- or part-time.
- **Access:** A postsecondary education system that is accessible to students in need of financial support yet ensures that students fulfil their obligations to repay loans, to be measured by the proportion of the population aged 18-24 years who were receiving postsecondary education (the participation rate) and by student loan default rates. The Ministry wishes to maintain the postsecondary participation rate at 34%, subject to changes in the labour market, and to reduce the loan default rate from over 20% to 10% within five years.

The Ministry is requiring universities to publish their graduation and employment statistics, beginning in 1999, to allow students and their parents to assess the performance of individual institutions so that they can make informed choices about their postsecondary studies. The Ministry also published default rates for all postsecondary institutions in December 1998. Loan default rates for each program will also be published.

MEASURING AND REPORTING PROGRAM QUALITY

In addition to being a ministry goal, program quality is key to maintaining the reputation for excellence of any postsecondary institution. Information about the relative quality of university programs is therefore vital for the Ministry, university governing bodies, students and other stakeholders.

The graduation and employment rates mentioned in the Ministry's Business Plan are important outcomes to measure and track. However, they are not by themselves sufficient to assess the quality of programs offered by universities. Specifically, graduation rates do not take into account differences in the calibre of students that universities attract, and employment rates can be significantly affected by local and general labour market conditions.

We noted that some of the universities we visited also conducted surveys of graduates to determine their level of satisfaction with the quality of their education and published the results

to their communities. Although the surveys provided some greater insight into the quality of programs, their utility was limited by the fact that students were often not in a position to compare the quality of programs they completed to those offered by other institutions. Survey timing is also a factor because graduates' views of their programs' strengths and weaknesses may change as they gain more work experience.

A key issue is that program quality is inherently difficult to measure directly, and expectations or standards for the quality of university programs have not been well defined. Meaningful comparisons of a program's quality to prior years, or to similar programs at other universities, are not possible without:

- clearer expectations about what skills and knowledge students are expected to acquire by graduation; and
- reliable methods to assess the extent to which students acquire the identified skills and knowledge as they progress through the program.

Without a basis for making comparisons, it is difficult to determine the impact of differences in teaching methods and resources on quality. As a result, decisions about resource allocations, grant levels and tuition ceilings are not based on sufficient information.

Recognizing that the outcome oriented indicators currently in place do not provide a complete measure of program quality, universities have established processes for assessing the quality of their undergraduate and graduate programs that include examinations of the adequacy and appropriateness of resources allocated to each program. Their quality assurance processes consist of self-assessments performed by the program's faculty and reviews performed by faculty from other universities.

The Advisory Panel on Future Directions for Postsecondary Education concluded that it was important, from the perspectives of both accountability and the protection of students, that independent assurance be obtained regarding the effectiveness of each university's quality assurance processes. We agree. We noted that the Ministry does not perform any work itself in this regard but relies upon the activities of two affiliates of the COU:

- the Ontario Council of Academic Vice-Presidents (OCAV), which is responsible for undergraduate programs; and
- the Ontario Council on Graduate Studies (OCGS), which is responsible for graduate programs (approximately 10% of enrolment).

The OCGS has been active since the 1960s, while the OCAV was established in 1996. Both conduct their assessments on a seven-year cycle and both report the results of their work to the Ministry. However, their functions differ in that the OCGS assesses the quality of every graduate program funded by the Ministry, whereas the OCAV assesses the adequacy of each university's internal procedures for undergraduate program quality assurance. As of December 1998, the OCAV had assessed the procedures of four universities and expected to complete assessments of the procedures of all Ontario universities by 2003.

The Ministry had not provided any financial support for quality assurance and neither the Ministry nor the COU had allocated any resources for research to improve methods of measuring and assessing program quality or to develop assurance standards. The COU, through its affiliates, devoted the following resources to quality assurance:

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- the OCAV spends approximately \$100,000 and receives in the order of 80 hours of volunteer time from retired professors to assess the undergraduate program quality assurance process of two or three universities per year; and
 - the OCGS spends approximately \$700,000 and receives in the order of 2,300 hours of volunteer time from professors to assess the quality of 80 to 120 graduate programs per year.

The deans and department chairs we interviewed during our visits stated that their self-assessment and external review processes, while time consuming, were worthwhile and provided us with examples of improvements that had been made as a result of the reviews. We reviewed a sample of reports prepared by external examiners and found that they contained useful recommendations and that the examiners appeared to perform their task in an objective manner.

However, we also noted a number weaknesses in the processes, details of which were provided to the Ministry and to the COU. The weaknesses stemmed from a lack of assurance standards governing program quality reviews and inadequate guidance regarding the criteria that examiners should use in assessing key aspects of program quality. Thus, while examiners were expected to assess whether a program required graduates to demonstrate an appropriate level of intellectual development, the criteria to be used in making this key assessment and the nature and extent of evidence required to support their findings and conclusions were left entirely up to individual examiners.

The adequacy of the OCGS program quality assessment procedures has been evaluated twice in the last 30 years; the report on the most recent evaluation was published in April 1999. The evaluation was initiated and the terms of reference for the review were set by the OCGS without the involvement of the Ministry, although the OCGS provided a copy of the report to the Ministry. As the OCAV procedures were still evolving, they had not been reviewed.

The April 1999 report raised a number of issues, including the fact that the OCGS procedures were not designed to compare program quality at the subject university to that at other universities either inside or outside Ontario. Instead, each program was assessed against its own stated objectives. Thus, the OCGS reviews would not highlight a situation where a university was achieving its objectives with respect to a program's quality but failing to keep pace with the improvements in quality that other universities were achieving.

Based on our review, the same concern applies to the OCAV reviews and the self-assessments performed by the institutions. Therefore, the Ministry has no assurance that universities are making the changes needed to at least maintain, if not improve, the province's competitive position.

In contrast, programs that must meet standards established by external accreditation bodies have a more objective and consistent basis for assessing quality because program objectives and outcomes have been clearly established. Most of the bodies are national or international, thus allowing comparisons to other jurisdictions. However, only a small proportion of students are enrolled in accredited programs.

Although the Ministry relies on the COU affiliates to provide it with independent assurance that its program quality objective is being achieved, it does not have an agreement with the COU

covering this activity. In order to enter into an agreement, the Ministry must first identify the requirements it wishes to incorporate into the agreement including:

- its expectations regarding standards of assurance to be employed in program quality examinations including the scope of the examinations and the level of assurance it needs;
- the financial resources required to meet its expectations and to support the cost of research into methods of measuring and assessing program quality; and
- the nature and frequency of independent evaluations of the COU's quality assurance processes.

Independent information on program quality would be of interest to students in making choices about which institutions to attend. However, we found that only two of the universities we visited published summary information on the results of the OCGS quality reviews. Only one of them published information on its internal quality assurance processes and results. Consequently, there is insufficient public reporting on the extent and results of universities' program quality assurance efforts.

Recommendation

In order to obtain assurance that publicly funded programs are of appropriate quality, the Ministry should:

- work with universities to establish clear expectations for program quality including an agreed-upon definition of quality that facilitates comparisons;
- identify its requirements regarding independent quality assurance processes and incorporate them into an agreement with the Council of Ontario Universities; and
- ensure that universities summarize and report publicly on their internal quality assurance processes, activities and results, and on the results of external reviews.

Ministry Response

The Ministry agrees that further steps can be taken to obtain assurance of the quality of the universities' publicly-funded programs and will undertake to work with the universities to formalize its expectations for program quality and for quality assurances processes. As part of this undertaking, the appropriate level and type of public reporting on results will be addressed. To the extent that objective and comparable measures of academic program quality can be identified, these will be incorporated into these expectations. As previously noted, one of the recommendations of the Ontario Jobs and Investment Board report was for the establishment of an independent quality assessment organization.

ACCESS

Accessibility is the other key objective that the Ministry has identified for postsecondary education. Although the Ministry does not have a formal policy on access, we were advised that it accepts the principles set out by the Advisory Panel in its 1996 report, *Excellence, Accessibility, Responsibility*, (p. 18):

... that postsecondary education must evolve in a way which provides a high-quality learning experience to every Ontarian who is motivated to seek it and who has the ability to pursue it.

Further,

... that governments must help ensure that students with the ability and motivation for higher education are not barred from access to it because they cannot afford it.

Accessibility has two elements: capacity and affordability. Some jurisdictions, such as those in Western Europe, place greater emphasis on affordability than Ontario, but do so at the expense of capacity, with the result that a smaller proportion of students qualify to attend university than in Ontario.

The Ministry does not control the capacity of Ontario's universities directly, but does so indirectly through the structure of its funding system. Although the funding system encourages universities to serve a larger proportion of the population than many other jurisdictions serve, it is not intended to ensure that there is sufficient capacity to accommodate all those who are motivated to apply without regard to their academic ability. In view of the high cost to both taxpayers and students of attending university, it is clear that both would lose if admission policies did not consider ability. Therefore, establishing capacity for the university system involves balancing accessibility on the one hand with the cost to students and taxpayers on the other.

The capacity provided for under the Ministry's funding system has meant that, in recent years, between 50% and 55% of applicants to Ontario universities were admitted. COU data indicate that students with a 70% average on their OAC courses can gain admission to some program at some university, but not necessarily admission to their first choice program at their first choice university. The experience of some of the universities we visited that experimented with lower admission requirements in the mid-1990s supported the 70% cut-off level in terms of the likelihood of students completing their programs.

While the Ministry supports the policy objective of maintaining university capacity at a level sufficient to accommodate all those who possess both the motivation to seek and the ability to pursue a university education, it has not developed the indicators necessary to measure the extent to which this objective has been achieved.

FORECASTING CAPACITY NEEDS

Since the primary users of the postsecondary education system are those in the 18- to 24-year-old age group, the Ministry monitors this group's participation rate in postsecondary education as a means of measuring accessibility. The Ministry's goal of maintaining a 34% participation rate for postsecondary education is based on the current rates of approximately 22% for universities and 12% for colleges of applied arts and technology.

The participation rate in university education has been trending upwards for some time and, over the last decade, has increased from 17% to the current 22%. As a result, full-time enrolment increased by approximately 29,000 over the last ten years, an increase of 14%, even though the number of 18- to 24-year-olds dropped by 9%.

Actual and Forecast Full-time University Enrolment: 1988, 1998 and 2008

	Number			Change			
	Actual		Forecast	Actual 1988-98		Forecast 1998-2008	
	1988	1998	2008	No.	%	No.	%
Pop. 18-24 yrs.	1,156,000	1,047,000	1,207,000	-109,000	-9	+160,000	+15
Full-time enrolment	201,000	230,000	266,000	+29,000	+14	+36,000	+16
Participation rate	17%	22%	22%				

Source: Based on Council of Ontario Universities data

Making reliable estimates of future demand is currently an issue due to the forecast increasing population of 18- to 24-year-olds. In order for the Ministry to maintain the current participation rate of 22%, university enrolment would have to increase by 36,000 by 2008. In addition, a recent study by the COU suggested that there will be sufficient demand from qualified students to justify an increase in the participation rate to 24.3% by 2008. In order to accommodate this rate, the Ministry would have to increase full-time student capacity by 63,000. At current funding levels, increases of 36,000 and 63,000 would require an additional \$238 million and \$416 million, respectively, of annual operating grants as well as substantial capital investment.

Universities require significant lead time to implement major staffing and capital investment decisions. Consequently, the Ministry has established a committee to examine the impact of the above projections and the elimination of grade 13 in 2003. However, the Ministry lacks the information necessary to assess the effect that other factors, such as the proportion of students who have the necessary ability, the employment opportunities for graduates and the level of tuition fees, are likely to have on future demand for university education. Better information would assist the Ministry in predicting, for example, the extent to which the upward trend in the participation rate of 18- to 24-year-olds in university education can continue without diluting the quality of programs offered.

RESPONDING TO CHANGES IN DEMAND

Through its funding system the Ministry manages overall capacity at the universities and has a process in place to ensure that there is sufficient demand before approving new programs for provincial funding. However, once approved, it is up to each institution to monitor demand for its programs and decide whether funding should be reallocated.

The universities that we visited provided a number of examples where resources had been reallocated in response to changes in demand. In addition, the Ministry had introduced a special program to help universities to quickly increase their capacity in information technology programs. However, despite these efforts there continue to be program areas where capacity has not grown as quickly as demand. Programs in these disciplines commonly have average

entering grades that are 10% to 20% higher than low demand programs and well above the universities' minimum admission requirements. Thus, the Ministry needs to be able to monitor trends in student and labour market demand and in universities' efforts to meet those demands so that it can be satisfied that universities are sufficiently responsive to changes in the province's needs.

MAINTAINING AFFORDABILITY

Affordability involves several factors: the cost of attending university, the means of financing these costs, and the time required for students to achieve their educational objectives and join the work force.

Because graduates obtain substantial personal economic benefits as a result of their degrees, studies in Ontario and other jurisdictions have concluded that students should bear a portion of the cost of their university education. However, as the Advisory Panel noted, the Ministry has not determined what share of the costs would be appropriate.

The average full-time undergraduate tuition fee in Ontario has increased from approximately \$1,400 to \$3,500 per year over the 10-year period ending April 30, 1998, and the proportion of university operating revenues provided from tuition fees has risen from 18% to 33%. COU data indicate that these tuition fees are above those charged in most other provinces but below those at most public universities in the Great Lakes states. To help maintain accessibility in the face of rising costs, the Ministry has devoted an increasing share of postsecondary education expenditures to financial assistance programs for students and has also created a number of scholarship programs.

Students also finance all or a portion of the cost of university education through employment. Most universities structure their program offerings such that students attend university from September to April and work during the summer. Some universities offer co-op programs or internships whereby students alternate between work and study, often in a way that allows them to work for employers who have positions available during the fall and winter seasons. The government has introduced tax credits to encourage employers to expand the number of co-op employment opportunities.

One of the universities that we visited reduced the time required to obtain an MBA from 16 months to 12 months, thus allowing students to return to the work force more quickly. It was clear from our discussions with the program developers that one factor that enabled them to condense the program was treating students' time as a scarce resource and implementing a number of steps to use it efficiently. Condensing program time also requires that educational objectives be clear and focused.

Our research indicated that one university in the United States had initiated a project to reduce the time required to obtain an undergraduate degree from four to three years by focusing on learning outcomes rather than time in the classroom and adopting innovative program delivery methods. If successful, the project will reduce the cost to students and taxpayers of achieving the desired educational outcomes and enable students to join the work force more quickly.

We noted that the Ministry did not collect the data required to monitor the performance of universities in introducing measures that assist students in reducing the financial burden of achieving their educational objectives.

Another aspect of minimizing the time and money students must invest in achieving their educational objectives is the efficiency of the college-university credit transfer process. Both the Advisory Panel and the Ontario Jobs and Investment Board have raised this issue and called for improved arrangements to transfer credits and increased cooperation in the form of collaborative programming, shared services and facilities.

In this regard, we noted that the Ministry funds and participates in the College-University Consortium Council. Formed in April 1996, the Council's mandate is to facilitate, promote and coordinate joint education and training ventures that aid the transfer of students from sector to sector, facilitate the creation of joint programs between colleges and universities, and further the development of a more seamless continuum of postsecondary education in Ontario. This initiative is intended to help increase the system's ability to meet changing student needs and to reduce the time and money students must invest in reaching their goals. However, the Ministry has not yet established goals and targets or begun to collect the data required to measure the success of this important initiative.

Recommendation

In order to ensure that the university system is meeting provincial and student needs, the Ministry should:

- **develop indicators that measure the extent to which its universities program has met its accessibility objectives;**
- **obtain the information necessary to reliably forecast capacity and spending requirements;**
- **monitor universities' efforts to reallocate capacity to meet changes in demand, and take appropriate action where they are unsatisfactory; and**
- **encourage and monitor universities' efforts to deliver programs in ways that lessen the need for students to rely on financial assistance programs and reduce the time and cost required for students to achieve their educational objectives.**

Ministry Response

The Ministry agrees that more extensive use can be made of existing application and enrolment data to develop indicators related to accessibility, and will undertake to work with the universities in this regard.

With reference to the need to obtain the information necessary to reliably forecast capacity and spending requirements, the Ministry has established senior level committees with universities and colleges to provide advice on actions that might be taken to accommodate the anticipated growth. These groups have dealt with such issues as enrolment growth; operating costs of accommodating growth; quality and accountability issues; technology requirements; physical plant requirements and capital implications.

Through this work, the Ministry is now able to make estimates of future enrolment demand, to develop strategies to address capacity issues, and to anticipate and respond to high demand for certain types of programming, as occurred with the Access for Opportunities Program for high demand engineering and computer science.

With reference to the point that the Ministry should monitor universities' efforts to reallocate capacity to meet changes in demand, the Ministry will work with the universities to develop appropriate strategies to address this issue.

With reference to the final point in this recommendation, the Ministry notes that a variety of creative approaches to delivering university programs will be needed to accommodate the anticipated enrolment growth. As the work on university capacity continues, these approaches will be fully explored. Increased flexibility in programming could help reduce reliance on student financial assistance.

3.13

MONITORING THE FINANCIAL HEALTH OF UNIVERSITIES

The universities' incorporation statutes place the responsibility for financial stewardship with their boards. Boards rely on audited financial statements, management reports and the expertise of their finance and audit committees to help monitor the financial health of their institutions. Our discussions with board members at the universities we visited and the responses to our surveys indicated that all but two boards were satisfied with the quality and clarity of the financial information they received.

One element of an effective accountability framework is ministry monitoring of the financial position of universities to determine whether boards are fulfilling their stewardship responsibilities. In this regard we noted that nine universities have incurred operating deficits in at least one of the last two years. However, a number of the deficits were largely the result of severance and other one-time charges associated with restructuring programs that the universities implemented in response to funding cuts and thus may not represent an ongoing problem. Nevertheless, the Ministry had to intervene in two cases in the early 1990s where smaller institutions had experienced serious financial difficulty. In addition several universities mentioned that they were concerned about the significant cost of deferred maintenance on their buildings, which a 1998 study by the COU estimated to be approximately \$600 million system-wide.

In order to effectively discharge its responsibilities, the Ministry needs clear policies and procedures for determining when intervention is appropriate and on the nature and timing of corrective action. At the time of our audit, the Ministry did not have the policies and procedures necessary to ensure effective monitoring.

Another factor that limits the effectiveness of ministry monitoring is late reporting by universities. In 1998, for example, only about half of the universities had submitted their audited financial statements to the Ministry seven months after their fiscal year-end. While the

Ministry makes use of summary financial information on all universities prepared by the COU, this information is not available until June of the following year, some 14 months later.

The Ministry also requests budget information from universities but this too is often not timely.

Recommendation

In order to ensure that Ontario's universities are and remain financially sound, the Ministry should establish clear policies and obtain the resources and information needed to effectively monitor the financial condition of universities at risk and to take any necessary corrective action.

Ministry Response

The Ministry agrees that it should monitor the financial condition of the universities. The Ministry currently obtains the necessary information to effectively assess the universities' financial position and is establishing clear internal policies regarding the identification of institutions at risk. The recommendation that the Ministry "take any necessary corrective action" may confuse accountabilities, since the governing board is legally responsible for a university's finances. The Ministry's role will be to satisfy itself that the board is effectively addressing the problem.

UNIVERSITY PERFORMANCE REPORTING

CURRENT PRACTICES

In 1992, the Task Force on University Accountability sought advice from the COU on appropriate performance indicators for Ontario universities. In 1993 the COU reported 25 categories of performance and 34 indicators from which governing bodies could choose according to the missions of their individual institutions. The focus of the indicators was on the achievement of institutional missions and goals. They were not intended to establish norms against which universities could be compared or to provide a basis for ranking universities.

All of the universities that we visited had started reporting performance indicators, some of which were those suggested by the COU. As can be seen from the following table, the processes were relatively new, and we were advised that they were still evolving.

Status of Performance Indicators and Reporting at Universities We Visited

Performance Indicators and Reporting	University				
	1	2	3	4	5
Number of Categories	12	13	8	6	5
Number of Indicators	14	28	41	19	20
Number of Years Reported	2	1	1	2	4
Reports are Available to Public	No	Yes	Yes	Yes	Yes

Source: Office of the Provincial Auditor

3.13

Most of the indicators reported were based on data that were already available and thus did not require the institutions to invest in new systems or processes. Examples of the indicators reported by the universities that we visited are listed in the table below.

Examples of the Performance Indicators Reported by Universities

PERFORMANCE CATEGORY	INDICATORS	BENCHMARK
Demand	The number of applications from prospective students. The number of applicants listing the university as their first choice.	Historical comparisons.
Calibre of Students	The average entering grade of first year students. The proportion of Ontario Scholars.	Historical comparisons and/or a national magazine's survey data.
Calibre of Faculty	The proportion of faculty with PhDs.	Historical comparisons and/or a national magazine's survey data.
Adequacy of Resources	Class size. Library funding.	Historical comparisons and/or a national magazine's survey data.
Quality of Research	Research grants per faculty member.	Historical comparisons and/or a national magazine's survey data.
Space Utilization (one university reported)	Actual floor space by category (classrooms, labs, offices, and so on) expressed as a percentage of the COU standard.	Standards developed by the COU based on enrolment.
Energy Consumption (one university reported)	Energy use per square foot relative to other institutions.	Energy consumption per square foot of seven other institutions.

Source: Office of the Provincial Auditor

A 1995 paper published by the Association of Universities and Colleges of Canada, *A Primer on Performance Indicators*, stated that performance indicators should have a comparative dimension or reference point that permits a value judgment to be made about the university or

the university system. As the above table shows, in most cases the reference points for the indicators reported by universities we visited consisted of historical comparatives or statistics from a national magazine survey. While reporting trends in such areas as library funding may provide information about the relative importance universities place on such areas, they provide no information about how well managed these services are.

In a few cases, these universities had made comparisons to other Ontario or Canadian universities. For example, as a measure of research excellence, one university compared itself to other Canadian universities and to the national average on its success rate in obtaining national peer-adjudicated research grants. While such comparisons are more informative than historical trends, they too lack a reference point such as expectations or targets that the institution could establish in relation to its own strategic goals. The universities advised us that because their performance measurement efforts were relatively new and evolving, they were not yet in a position to set meaningful performance targets, but that they would be soon.

MONITORING ECONOMY AND EFFICIENCY

One area of particular concern to us was the inability of the universities we visited to relate resources (inputs) to outputs. Such information is critical for determining whether individual universities are operating in an economic and efficient manner, which in turn has an impact on the affordability of a university education. However, the universities we visited did not have the systems in place to provide much of the information needed to measure the resources used in achieving the primary outputs of program graduates, research results, and community services. Consequently, for example, the universities we visited could not demonstrate how the quality of their programs varied according to the resources available to deliver them.

We also noted that universities require better information regarding their institution's capacity to deliver programs. Capacity is a complex measure that is affected by several factors, including the physical space and faculty available, the number of hours per year that the university operates, the type of programs offered and the educational objectives of the programs and courses.

Appropriate cost and capacity information would enable governing bodies:

- to monitor capacity utilization and the cost of programs, make meaningful intra- and inter-institutional cost comparisons, and identify opportunities for improvement; and
- to determine the extent to which the restructuring efforts undertaken by a number of universities in recent years have achieved sustainable increases in the economy and efficiency of their operations, or have simply deferred certain costs to future years.

Recommendation

In order to assist the Ministry and governing bodies in assessing institutional performance, the Ministry should encourage universities to develop and report measurable objectives and appropriate indicators of the economy, efficiency and effectiveness with which they meet them.

Ministry Response

As noted by the Provincial Auditor, considerable work was done by the Council of Ontario Universities in the development of performance indicators for institutional use. This work was undertaken in conjunction with the work of the Task Force on University Accountability. The universities are at various stages in the implementation of indicators, and the Ministry has not identified its own requirements from the universities in this regard. The Ministry will undertake to work with the universities in the development of measurable objectives and appropriate indicators of performance.

3.13

FUNDING UNIVERSITY EDUCATION

Approximately \$1.4 billion of the \$1.6 billion of grants that the Ministry provides to the province's universities are basic operating grants. At one time the grant paid to a university was based on its enrolment in certain broad program categories and a weighting factor for each category that was intended to reflect the cost of delivering programs in that category.

The Ministry moved away from enrolment-based funding in the 1970s and, starting with the 1986/87 academic year, adopted a system under which each university received a specified portion of the Ministry's operating grants budget. Each university's grant is conditional on maintaining a minimum weighted enrolment and on adhering to the Ministry's tuition fee policies.

While the current approach to funding provides universities with relatively stable funding by reducing the impact of enrolment declines, it does not link funding to the achievement of the Ministry's objectives. For example:

- **Program quality:** The funding system does not reward program quality. A program whose quality was comparable to the best in the world would generate the same level of grant and tuition revenue as one of mediocre quality. Although the Ministry has given universities freedom to increase tuition fees beyond ministry standards for graduate and professional programs, universities are not allowed to invest all of the increases in quality improvements. Instead, 30% must be set aside for student assistance. Thus, the funding system limits the number of programs in which the province's universities can aspire to the highest levels of quality unless they can attract other significant sources of funding.
- **Access:** The Ministry's program weightings and standard tuition fees are not based on up-to-date analyses of the cost of delivering programs. One impact of this is that universities had not been able to increase capacity in certain high cost programs as quickly as the demand from students and employers warranted.

The Ministry responded to this problem with respect to high technology programs through the Access To Opportunities Program which, in partnership with the private sector, is intended to provide the funding required to double enrolment within two years. The Ministry also relaxed controls on the tuition fees for some programs on the condition that a portion of the increased revenues be used to increase capacity or improve program quality. These responses help universities to respond to specific needs but do not ensure that the universities can and do respond to changing demand on an ongoing basis.

Recommendation

In order to help ensure that the funding system meets the needs of students and the province, the Ministry should establish funding approaches that link funding to the achievement of the Ministry's postsecondary education objectives.

Ministry Response

The current funding system links university shares of total operating funding to the achievement of minimum levels of enrolment, weighted by program. With this funding system the universities have contributed to the fulfilment of the Ministry's postsecondary accessibility objectives, allowing Ontario to achieve one of the highest participation rates in Canada. The possibility of building other objectives into the funding formula will be explored. Several suggestions were made in the Ontario Jobs and Investment Board report for targeting funding toward the achievement of specific objectives and these suggestions will assist analysis on this issue.

Provincial Highway Maintenance

3.14

The Ministry of Transportation's goal is to foster a positive business climate supported by a safe, efficient and accessible transportation network. The Ministry sets minimum road safety and maintenance standards, establishes and enforces user safety regulations and sets policies for the use of the provincial highways network.

Pursuant to the *Public Transportation and Highway Improvement Act*, the Ministry is responsible for the maintenance and repair of provincial highways. The Ministry performs routine highway maintenance services to protect existing roads from untimely deterioration and to ensure highways are safe and usable. These services include such activities as culvert cleaning, pothole repair, crack filling, guiderail replacement, snow plowing and salting. The provincial network consists of 2,350 bridges and the equivalent of approximately 22,500 kilometres of two-lane highways. The estimated replacement value of this network is \$27 billion.

Since the early 1980s, provincial highway maintenance has increasingly shifted from an internal ministry operation to obtaining private sector contractors to carry out the work. During 1996, the Ministry developed an alternative service delivery strategy whereby all highway maintenance services would be provided by the private sector. On October 22, 1996, the Management Board of Cabinet approved the Ministry's business case for outsourcing maintenance activities. By March 31, 1999, under the alternative service delivery strategy, the Ministry had entered into a number of contracts with the private sector to provide maintenance services for approximately 6,800 kilometres or 30% of the provincial road system. The Ministry plans to have this initiative fully implemented by the spring of the year 2000.

For the 1998/99 fiscal year, total funding for highway maintenance was \$243 million, which includes both payments to contractors and the cost of the remaining ministry internal operations.

AUDIT OBJECTIVES AND SCOPE

The objectives of our audit of the highway maintenance program were to assess whether the Ministry had adequate procedures in place:

- to measure and report on program effectiveness; and
- to ensure that the outsourcing initiative was managed with due regard for economy and efficiency and in compliance with legislation, policies, and contract terms and conditions.

The criteria used to assess the program were discussed with and agreed to by ministry management and relate to systems, policies and procedures that the Ministry should have in place. These criteria include clearly defined goals and objectives for the program, procedures to carry out and monitor the outsourcing initiatives, maintenance standards to protect the Ministry's investments in the highways, and systems for generating reliable information for decision-making purposes.

Our audit was performed in accordance with the standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our audit, which was substantially completed in February 1999, included a review and analysis of documentation and discussions with staff at the Ministry's head office and district offices. We also reviewed practices in other jurisdictions with respect to highway maintenance and their experiences with outsourcing highway maintenance activities.

Our audit also included a review of the activities of the Ministry's Audit and Evaluation Services Branch. However, we did not reduce the scope of our audit work as the Branch had not issued any recent reports on the administration of the highway maintenance program.

OVERALL AUDIT CONCLUSIONS

Although some performance measures had been developed, the Ministry needed to improve its procedures to measure and report on program effectiveness. The Ministry's procedures were not adequate to ensure that the outsourcing initiative was managed with due regard for economy and efficiency nor to ensure compliance with legislation, policies, and contract terms and conditions. Our major concerns were as follows:

- The Ministry was in the process of developing performance measures for its winter maintenance activity to assess the amount of time it takes to reach bare pavement after a snowstorm. However, the Ministry also needed to develop procedures to assess the effectiveness of its summer activities and to ensure that current activities result in maintaining provincial highways in good condition.
- The Ministry had not achieved the target savings of 5% on the four outsourcing contracts we reviewed, which covered about 20% of the province's highway system.
- Subsequent to awarding highway maintenance contracts, the Ministry engaged the contractors to perform additional work without tender and offered these contractors surplus ministry vehicles and equipment without going through the required public auction.
- There were concerns that individual patrol areas were too large to adequately monitor the work of contractors to ensure that provincial highways were safe, usable and protected from untimely deterioration.

-
- To determine the cost of maintenance activities and assist in related decision making, the Ministry maintains a computerized system to record maintenance activities. However, the Ministry did not have procedures in place to ensure that the data input by contractors into its maintenance system were accurate and complete.

DETAILED AUDIT OBSERVATIONS

MEASURING AND REPORTING PROGRAM EFFECTIVENESS

3.14

EFFECTIVENESS MEASURES

The Ministry defines road maintenance as “the activities required to keep the highway in a safe and passable condition and prolong the life of the asset.” The objectives of the highway maintenance program are to ensure a safe, sustainable, efficient and high-quality transportation network with safety and highway preservation being the key maintenance priorities. In 1990, the Ministry started to develop key business measures intending to link performance indicators to these program objectives. However, at the time of our audit, the Ministry was still in the process of developing these effectiveness measures.

Both the Ministry’s 1997/98 and 1998/99 Business Plans contain performance measures and outcomes for the management of provincial highways, but these measures and outcomes relate primarily to the construction side of the Ministry’s business. There were no specific outcomes or performance measures for highway maintenance. However, during 1998, the Ministry produced a document titled *Core Business Performance Measures – 1998*. This document identified two main maintenance outcomes for the provincial highways management core business, which were to ensure that:

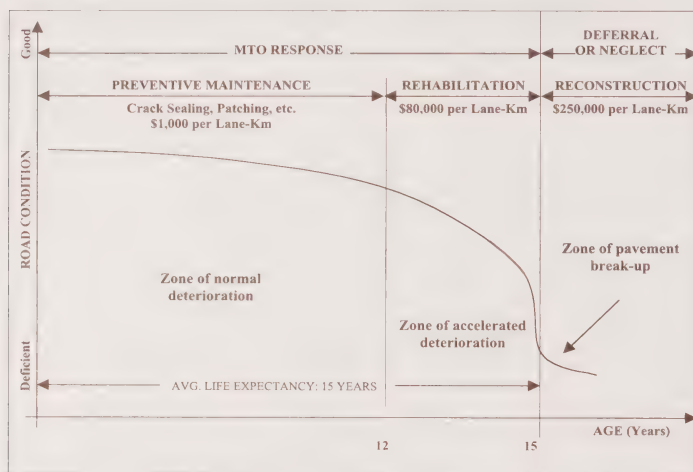
- The highways are usable and in good condition. Usable was to be measured as the average amount of time taken to restore highways to essentially bare pavement following winter storms. The condition of the road network would be measured as the percentage of highway kilometers and bridges in good repair.
- The highways are safe, with the performance measure being the dollars invested in highway safety improvement.

The Ministry has put some effort into measuring the performance of the winter maintenance activity. Specifically, the Ministry is developing a Bare Pavement System which records the length of time required to reach bare pavement after winter storms. Although information was collected in the system for 1997/98, the Ministry determined that this was not a normal winter season and the information would not reflect normal winter operations. Therefore, the Ministry was collecting an additional year of data during the 1998/99 winter season after which the results will be re-evaluated. At the completion of our audit in February 1999, the Ministry was still collecting baseline information for the Bare Pavement System. The Ministry has not developed any such performance measures for its summer maintenance activity. It also needs to develop measures of highway safety, as dollars invested measures only inputs and not the results of highway safety improvements.

We found that the Ministry's performance measures did not link maintenance activities to preserving and prolonging the life of the highways. In other jurisdictions, maintenance management systems have been established to measure this outcome in order to determine whether funds were being used effectively. One such measure is the percentage of highway kilometres where road conditions were maintained at a satisfactory level. This measurement would also help determine whether funds spent on maintenance activities were extending the service life of the highways.

The Ministry recognizes the importance of good preventive maintenance as a tool to slow the deterioration of highways and defer large reconstruction expenditures. Maintenance or rehabilitation that takes place before the pavement condition deteriorates will cost far less than reconstruction after the deterioration reaches a critical point. For example, as the following diagram illustrates, to reconstruct a road would cost \$250,000 per lane-kilometre as opposed to \$80,000 per lane-kilometre if it were resurfaced as a preventive measure.

Road Deterioration Over Time



Source: Ministry of Transportation

In an effort to prevent premature deterioration caused by water entering the road's base, the Ministry performs maintenance such as crack filling, pothole patching and shoulder grading, and ensures that culverts are kept free of dirt and debris so that water can flow freely away from the road.

The Ministry rates all roads as either in good condition or deficient. A deficient highway exhibits conditions such as cracks and rutting that will require corrective action within the next five years. Any conditions that are deemed unsafe are to be rectified immediately.

In our 1992 audit report on the Ministry's highway maintenance activities, we reported that the pavement condition rating had shown significant highway deterioration between 1979 and 1991. The lack of timely maintenance contributed to this decline. In 1979, over 60% of the

province's highways were rated in good condition whereas in 1991, only 40% of the roads received such a rating. In 1998, only 44% of the province's highways were in good condition.

Studies by the Ministry and its counterparts in other jurisdictions indicate that timely maintenance can preserve and prolong the life of highways. The Ministry estimates that on average provincial highways will last 15 years. As of 1998, approximately 31% of the province's highways were older than 15 years indicating that the roads may require more maintenance or costly reconstruction. The Ministry needs to perform a province-wide assessment to determine whether the highway maintenance program is meeting the Ministry's goal of preserving and prolonging the life of the provincial network.

Although ministry staff agreed that there was a need to evaluate program effectiveness, the Ministry did not have sufficient information to complete this measurement. Without it, the Ministry cannot demonstrate that its maintenance activities result in protecting its investment in a usable, safe highway network.

Recommendation

To ensure that the highway maintenance program is effective in meeting its stated objectives, the Ministry should:

- **implement and monitor performance measures for highway safety improvements and both winter and summer maintenance activities; and**
- **gather the necessary information to determine whether its maintenance activities are cost effective in preserving and prolonging the life of the provincial highways.**

Ministry Response

The Ministry agrees that performance measures are desirable management tools. The Ministry has implemented a new winter performance measure across the province. An analysis of the data accumulated during the winter of 1998/99 will be available in the fall of 1999 and will form the basis for the Ministry to establish performance targets.

Establishment of meaningful summer performance measures for maintenance is a significant challenge, both for the Ministry and other highway jurisdictions. However, the Ministry acknowledges that there is value in incorporating maintenance measures in its overall strategy for enhancing its asset management. The Ministry is continuing its review of the maintenance management information system for opportunities to develop appropriate summer maintenance performance measures.

The capital rehabilitation of roads and bridges has a far more significant impact on the anticipated service life of the infrastructure assets. Pavement deterioration is a complex process which is influenced by a number of factors including the pavement design life, layer types, depths and other material properties, traffic volumes, types of loading experienced, drainage characteristics, rehabilitation history, and others.

Achievement of a longer service life of a pavement may indicate an effective rehabilitation strategy that results in the lowest overall life cycle costs.

In this regard, and as indicated in its Business Plan, the Ministry is currently in the process of developing an integrated Asset Management Business Framework (AMBF). This project, which followed from a 1997/98 study conducted for the Ministry, examined best practices among leading highway jurisdictions and established a workplan for the development of an AMBF. Development of this framework includes improvements in performance prediction tools relative to its infrastructure management strategies. These tools will allow the Ministry to better measure the effectiveness of its highway preservation strategies.

New technology is required to effectively establish result-based performance measures. The Ministry is currently testing such technology.

DUE REGARD FOR ECONOMY AND EFFICIENCY

ALTERNATIVE SERVICE DELIVERY OPTIONS

Since 1995, the government has directed ministries to reassess their program delivery approach. In February 1996, Management Board of Cabinet issued its guiding principles for alternative service delivery strategies. These principles state that the choice of delivery method will be based on a sound business case which provides customer service and ensures the best value for the tax dollar. The Ministry analyzed several different options for the delivery of road maintenance services including outsourcing. In October 1996, the Ministry submitted a business case to the Management Board of Cabinet to justify outsourcing and outline its implementation plans.

The Ministry considered three alternative service delivery models as follows:

- **Managed outsourcing contracts (MO):** All direct delivery of maintenance services would be contracted out, but the Ministry would retain management responsibility for the activity. The Ministry would still be responsible for patrolling the roads and directing when and where maintenance activities were to take place.
- **Area maintenance contracts (AMC):** A contractor would assume the responsibility for all maintenance operations within a geographic area. The contracts would extend over several years and the Ministry's involvement would mainly be to monitor the contractor's work to ensure value is received and service levels are achieved.
- **Area term contracts (ATC):** Activities would be similar to an area maintenance contract, but would include the further provisions of other services such as road rehabilitation and resurfacing, engineering, systems management and corridor control.

In the business case submitted to the Management Board of Cabinet, a detailed cost analysis and risk assessment was done for each of these three models. The cost analysis considered

costs of equipment, material and labour. Potential variations and sensitivity ranges were established based on ministry experience and consultation with the industry. Contractor overheads and profit margins were also applied based on advice from the industry and consultants. The following table summarizes the range of potential annual savings determined by the Ministry when the estimated costs of alternative service delivery methods were compared to the Ministry's existing direct delivery method.

Potential Alternative Service Delivery Savings

	Managed Outsourcing (MO)	Area Maintenance Contracts (AMC)	Area Term Contracts (ATC)
Estimated Potential Annual Savings	5% to 11%	-11% to 7%	-13% to 10%

Source: Ministry of Transportation

The primary risks that the Ministry considered in its assessment included reduced program flexibility as a result of being locked into fixed multi-year contracts, the risks associated with potentially reduced levels of competition and the risk of not being able to provide adequate service levels. The business case showed that higher risks were associated with area maintenance contracts (AMCs) and more so for area term contracts (ATCs). Overall, managed outsourcing (MO) had the potential for greatest savings and was the least risky option.

The Ministry's initial implementation strategy, which began in December 1996, recognized that MO was a preferred alternative. However, since there was also a potential for savings with the AMC strategy, implementation was to include several trials for both delivery methods. Subsequent implementation would depend on which method provided the best value for the taxpayer, which would be determined after further analysis of the AMC and MO delivery methods. However, because of unresolved labour issues associated with managed outsourcing, the Ministry was unable to implement the MO strategy and proceeded to implement the AMC delivery strategy throughout the province.

In January 1999, the labour issues associated with managed outsourcing had been resolved. However, at the completion of our audit, the Ministry was continuing with its AMC implementation plan despite the increased risk associated with this strategy. The Ministry had not determined which of the two methods would actually be the most cost effective. The MO alternative was considered in areas where AMCs were shown to be too costly because they were in remote areas or AMC bids were not competitive. At the time of our audit, Ministry plans indicated that by the spring of the year 2000 nearly two thirds of the province's highways would be maintained using area maintenance contracts and one third would be maintained using the managed outsourcing alternative.

Recommendation

To ensure that the maximum benefits are realized from the outsourcing initiative, the Ministry should evaluate each contract to determine which outsourcing method provides the taxpayer with the greatest actual savings and revise the implementation strategy where necessary.

Ministry Response

The Ministry agrees with the recommendation. In fact, the Ministry has recently evaluated its experience with highway maintenance outsourcing to this point and developed a refined plan for outsourcing which combines the best options to maximize savings and minimize risks. The Ministry's revised strategy was submitted to and accepted by Management Board early this year.

The Ministry's experience to March 1999 with both the area maintenance contracts (AMC) and managed outsourcing (MO) concepts has resulted in a refined plan for outsourcing. The revised plan uses a combination of both AMCs and MOs in a blended approach. Ministry experience shows that this approach offers several advantages over the use of a one-concept strategy suggested in the original business case. Among the more significant demonstrated advantages is the ability of the blended approach to ensure greater competition, match contracts to local market conditions, allow greater industry participation and permit future flexibility in modifying contract areas and types. The blended approach also lowers risk levels relative to either alternative used on its own and will provide greater savings than either AMC or MO alternatives alone.

The Ministry's outsourcing strategy will continue to evolve and be adjusted based on experience gained in order to maximize savings to the taxpayer and minimize risks.

In order for maintenance outsourcing to be successful, the Ministry must ensure long-term sustainability, as well as initial cost savings. The Ministry will achieve this through the proposed blended contract approach to provide for a healthy and competitive supplier market and future flexibility to adapt to changing market conditions.

POTENTIAL OUTSOURCING SAVINGS

In October 1996, Management Board of Cabinet reviewed the Ministry's business case and approved its highway maintenance outsourcing plan. The Ministry's implementation plan was divided into two phases. Phase one was to implement a pilot area maintenance contract (AMC) followed by an AMC and a managed outsourcing (MO) contract in each region of the province. By August 31, 1997, the Ministry was to report to Management Board of Cabinet on the costs and benefits of each awarded contract before proceeding with phase two. Phase two would be to carry on with either AMCs or MOs, whichever yielded the greatest benefit in phase one. The Ministry reported to the Management Board of Cabinet that the effective implementation of the outsourcing initiative would result in estimated cost savings of 5%.

At the time of our audit, the Ministry had solicited bids from the private sector to implement AMCs in seven areas of the province. The Ministry estimated savings or losses on these AMCs by calculating the difference between the estimated cost of the Ministry doing the work and the contractor's bid price. In two northern districts the contractor's bid greatly exceeded

the estimates of the Ministry's cost to do the work and AMCs were therefore not awarded. Area maintenance contracts were awarded in the other five areas including the pilot district.

We were informed that the estimated savings in the pilot district were \$900,000, but the Ministry could not provide us with any documentation to support its calculation. We reviewed the other four AMC contracts that were awarded during the 1998/99 fiscal year, and noted a number of costs which were included in the Ministry's estimates that required either adjustment or updating. For example, the Ministry either double counted or overestimated its own cost of equipment maintenance, service crews and miscellaneous expenditures.

Additionally, the Ministry based overhead cost for two districts on 1995/96 data whereas 1997/98 data were used to calculate the overhead costs for the other two districts. The Ministry also included in its estimated savings imputed financing charges on the purchase of equipment. However, if the Ministry had continued to provide highway maintenance services instead of agreeing to pay the four contractors a total of \$93.1 million, it would have had to spend \$93.3 million. Outsourcing will therefore result in minimal cash flow savings. Nevertheless the Ministry included financing costs of \$2.3 million in its estimates which it based on a cash flow reduction of \$13.8 million from not buying the equipment. Therefore, the Ministry has not considered the financing costs for all government cash flows including cash flows to outsourcing contractors. If all of these costs were factored out of the Ministry's estimates, outsourcing would result in estimated losses on three of the four contracts.

In addition to estimating savings from these contracts, the Ministry calculated net one-time savings of \$2.35 million for the four districts from the sale and lease of equipment and the closure of facilities for \$5.1 million less severance pay and other one-time costs of \$2.75 million. Despite these one-time savings, outsourcing may ultimately result in a significant increase in the cost of highway maintenance for these contracts.

Outsourcing Savings/Losses

AMC Location	Ministry's Estimate \$000's	Provincial Auditor's Estimate \$000's
District A	1,434	296
District B	1,262	(864)
District C	27	(386)
District D	(66)	(1,097)
Contract Savings (Loss)	2,657	(2,051)
One-time Savings	2,349	2,349
Total Savings	5,006	298
Percent Savings	5.2%	0.3%

Source: Ministry of Transportation and Office of the Provincial Auditor

Based on our calculations, the Ministry has not achieved the estimated 5% savings on these four contracts. Since these contracts represent almost 20% of the provincial highways network, future contracts will require significantly higher savings in order to achieve the overall 5% savings necessary for the effective implementation of the outsourcing initiative.

An evaluation of actual savings is important to determine if projected savings from outsourcing highway maintenance services have materialized as anticipated. In one Canadian jurisdiction, consultants were engaged to review its outsourcing of the highway maintenance program. The consultants concluded that savings claims stemmed from projections and estimates about the future and were not based on a review of actual costs incurred. Similar cost estimating procedures were used in Ontario. In addition, the study concluded that, in the five years since outsourcing was undertaken, that jurisdiction may have incurred increased costs of as much as \$100 million. The study also noted that all local knowledge, experience, technical skill and competency in highway maintenance service delivery was permanently removed from the public service of the province.

Recommendation

To ensure that the outsourcing initiative actually results in better value for money for the taxpayer, the Ministry should:

- **reassess the estimated savings for the contracts awarded prior to renewal and modify its service delivery approach accordingly; and**
- **review its business case methodology for service delivery to ensure that outsourcing is in fact beneficial to the taxpayer.**

Ministry Response

It is the Ministry's position that financing costs for capital (for example, equipment) should be included in the estimates of cost to government for in-house delivery. However, the Ministry agrees with the recommendations and estimated cost savings will be reassessed prior to the renewal of contracts, and the Ministry will continuously review its business case methodology for service delivery.

It should be noted that at the time of the audit, only four contracts had been awarded. Savings associated with subsequent awards indicate that the Ministry's savings target for the complete outsourcing initiative is likely achievable.

MAINTENANCE INFORMATION SYSTEM

The Ministry's District Direct Input System is used to record maintenance information. Some of the details included are labour hours, equipment utilized and the amount of salt, sand and material used. The system's manual notes that one of the most important requirements of an effective system for managing the highway maintenance program is the reporting of accurate and meaningful data. These data should include the cost of the work performed, the quantity of work and the resources used. Highway maintenance work such as patching, ditching, sign placement and guiderail repair is defined in the manual so that the type of work performed, as well as the labour, equipment and materials used, can be related to a specific operation. The manual also indicates that in order to achieve any degree of success in performing these tasks, managers must rely on detailed and accurate reporting.

In areas where the Ministry has outsourced maintenance services, the information will be input directly by the contractors. We found that there were no procedures in place requiring ministry staff to verify the accuracy and completeness of the information provided and input by the contractors. Ministry staff generally followed up on large variances between contractor information and historical information. This historical information was input into the system when the work was performed internally. However, over time the Ministry's historical information will become less meaningful and the Ministry will have to rely fully on contractor input.

We were informed that the Ministry intends to use the system's information to prepare its estimate of maintenance costs to be used when evaluating future bids, including bids from the incumbent contractor. If the information on the system is not accurate, the Ministry's estimate would also be incorrect. This may affect management's decisions regarding the awarding of contracts. Without the assurance that information on the system is accurate and reliable, it would be difficult to make informed decisions.

Recommendation

To ensure that the District Direct Input System provides accurate and complete information for management decision making, the Ministry should establish procedures, such as periodic on-site verification by existing employees, to obtain the necessary assurance that information submitted by contractors is reliable.

Ministry Response

The Ministry agrees with the importance of accurate information to manage the highway maintenance program and maintains that monitoring the computer output by contractors of maintenance information is being carried out. The Ministry will, however, create a more formalized process that will include periodic reviews to ensure that District Direct Input System input appropriately reflects the work being done.

HIGHWAY TRANSFERS

In the spring of 1996, the government announced that a number of roadways that serve primarily local needs would be transferred to municipalities. At the same time, the Ministry was in the process of obtaining bids for highway maintenance services in the pilot district. The pilot contract started in December 1996 and by April 1998, the Ministry had transferred 425 kilometres of roads in the district to local municipalities.

This transfer of highways to the local municipalities was not reflected in the contractor's original bid price as the details of the transfer were not known at the time the contract was awarded. However, the contract states that if the number of kilometres decreases, the Ministry will pay only 20% of the costs associated with the maintenance of the highways transferred. As a result of this provision, the Ministry is paying the contractor approximately \$500,000 annually for the highways transferred to municipalities that the contractor no longer maintains.

This provision is designed to compensate the contractor for inefficiencies imposed by changes to the original terms of the contract.

The term of the pilot area maintenance contract is for three years and five months and is scheduled to end on April 30, 2000. However, the contract allows for an extension of an additional two years by mutual agreement between the Ministry and the contractor. Exercising this provision would cost the Ministry an additional \$1 million for highways no longer maintained. In addition, the contractor contends that the 20% payment is insufficient and there is a risk that the Ministry may eventually have to pay more.

Recommendation

To maximize the benefits of the outsourcing initiative, the Ministry should consider not exercising the two-year option on the pilot area maintenance contract and either retender or switch to an alternative delivery method that is more cost effective.

Ministry Response

Area maintenance contracts contain provisions dealing with changes in the highway system the contractor is required to maintain. These provisions are designed to cover overhead and other costs which impose inefficiencies as a result of the reduced size of the highway system.

The Ministry will consider all options in making a decision with respect to the provision of highway maintenance services in the pilot area, including the Provincial Auditor's recommendation. The Ministry will also consider all relevant costs in making a decision.

MAINTENANCE OF A COMPETITIVE INDUSTRY

The Ministry's business case for outsourcing indicated that a key factor in contracting out maintenance services would be its ability to ensure adequate competition. Without adequate competition, costs could escalate and result in the Ministry being forced to pay more to maintain service levels. The Ministry determined that the size of individual contracts may limit the number of bidders to a select group of contractors that have the resources to manage major projects. This would result in a lack of competition. Therefore, the Ministry decided to limit the size of individual contracts to 300 to 500 two-lane kilometres. Another strategy to mitigate the risk of reduced competition, as proposed in the business case, was to limit the quantity of work that any one contractor could be awarded.

At the completion of our audit, the Ministry had yet to establish an upper limit on the amount of work that any one contractor could obtain. Also, our review of the five area maintenance contracts awarded indicated that, although the proposals for each area were advertised as three or four contracts in the 300 to 500 kilometre range, the Ministry allowed contractors to bid on the entire package without providing bids for each individual component. The Ministry determined that bids on the entire package were the best value. However, this results in a

reduced number of companies with experience in providing highway maintenance services. Therefore, the risk of an inadequately competitive market still exists.

In May 1994 the Ministry reviewed the outsourcing initiative in another jurisdiction and found that, for the second round of competition, there was a disturbing trend toward fewer contractors in total and, in a number of districts, there were very few bids. The review noted that it was difficult to come to a definitive conclusion on the cost effectiveness of outsourcing.

In some areas of the province the Ministry has found that there were not enough contractors to ensure adequate competition. In one area, the Ministry found that bids submitted were significantly higher than ministry estimates. For example, three contracts had a total estimated value of \$470,000 and the sum of the lowest bids submitted for the three contracts totalled over \$1.6 million. In another case, two maintenance contracts had a total estimated value of \$118,000 and the lowest bids submitted for each of the two contracts totalled \$164,000. Appropriately, the Ministry did not award these maintenance jobs to contractors.

We were informed that the Ministry might accept bids in some areas that are higher than the Ministry's estimated costs as long as total savings of 5% are realized from the province-wide outsourcing initiative. However, this would be neither cost effective nor result in a competitive industry in some areas. In addition, a Management Board of Cabinet directive on alternative service delivery indicates that the government will remain in direct delivery where it can best serve the public interest. Due to a lack of competition in some areas, outsourcing may actually lead to an escalation in maintenance costs.

Recommendation

The Ministry should review its current tendering practices to ensure that excessive costs are not incurred in future highway maintenance. In addition, in areas where no savings would result from outsourcing, the Ministry should implement the most cost-effective method of service delivery.

Ministry Response

The Ministry agrees with the Provincial Auditor that any outsourcing plan must ensure that the Ministry is protected from long-term cost increases. The Ministry's current outsourcing plan has been built on the diverse experience of other jurisdictions, optimizing its tendering approach to provide maximum flexibility and ensuring the most cost-effective outsourcing alternatives are, and continue to be, available to suit local conditions. In this regard, the Ministry has developed an outsourcing plan which achieves these objectives; the blended approach being implemented uses a combination of area maintenance contracts (AMCs) and managed outsourcing (MO) contracts.

Among other benefits, the use of both AMCs and MOs ensures that the Ministry is able to manage the level of competition within the industry and retain the cost advantages of outsourcing. This measure helps to avoid the difficulties that some other jurisdictions seem to have encountered.

The use of a blended approach also provides greater flexibility to address regional characteristics such as geography, highway types and the capacity of the contracting industry.

The Ministry is continually reviewing and refining the way it outsources highway maintenance services, pursuing strategies such as:

- reducing the financial pre-qualification level without compromising financial surety (thereby increasing the number of potential contractors able to bid); and*
- adjusting the allowable maximum of subcontracted work in AMCs so as to provide opportunities for small local business operators who traditionally participate in delivering operations, and providing future flexibility for service.*

Regarding the Provincial Auditor's reference that "the Ministry had yet to establish an upper limit on the amount of work that any one contractor could obtain," the need for such a restrictive measure will only be required if industry consolidation limits competition. Ministry experience to date, with a wide variety and number of contractors bidding on maintenance contracts, indicates that there is no need at this time to impose limits on the amount of work that one contractor can hold. The Ministry has indicated to the industry however that, should circumstances warrant, such a limit may be imposed.

With respect to the Provincial Auditor's comments that the Ministry might award contracts where bids are above estimated costs, the Ministry is looking at overall cost efficiencies. It is the Ministry's view that it may not always be cost effective to retain small pockets of ministry direct delivery staff and related equipment where there is only a narrow difference between the individual contract prices and the in-house costs. It may be necessary on rare occasions to accept prices on small components of work to achieve the overall savings of large components of work. The Ministry's strategy, through a blended AMC and MO approach, is to outsourcing highway maintenance activities which will achieve an aggregate saving as well as creating a competitive and robust industry.

PRESERVATION MANAGEMENT

Preservation management activities usually encompass preventive and rehabilitative work that helps to sustain or prolong the life cycle of the provincial highways network. They include such items as sealing cracks in the road and replacing deck joints on bridges. The contractor identifies this type of work to the Ministry each year. According to the terms of the area maintenance contracts, the Ministry may engage the contractor at a negotiated price to carry out any or all such work that is valued at less than \$250,000. This amount was reduced to \$100,000 for contracts signed subsequent to 1998. We noted that the Ministry would first approach the contractor for a price before considering an open competitive process. This price would then be compared to ministry estimates and if considered reasonable, the work would be granted to the existing contractor. However, Management Board of Cabinet directives require

all services to be acquired competitively to ensure a fair process and receipt of the best value for the funds expended.

As of March 1999, 12 preservation management contracts totalling \$335,000 were given to the existing contractor in the pilot district without going through a competitive acquisition process. This practice does not allow the Ministry to demonstrate that it is receiving the best value for the money expended, as other contractors were not allowed to bid on the work. In addition, the Ministry did not request or obtain the required approval from Management Board of Cabinet to be exempted from the competitive acquisition policy.

Recommendation

To ensure that value for money is obtained, the Ministry should award preservation management contracts through a competitive acquisition process as required by the Management Board of Cabinet directives.

Ministry Response

It is the Ministry's position that preservation management work is an inherent part of the area maintenance contracts (AMCs) and it is therefore acquired in an open and competitive manner. The Ministry achieves the best overall value for the total work, including preservation management work, as part of each AMC contract. This opportunity provides an incentive to each AMC bidder and results in lower contract prices and greater savings overall. At the same time the Ministry retains the option of seeking other bids for preservation work if not satisfied with the quotes provided by the AMC contractor. The Ministry understands the Provincial Auditor's concerns about the need for a specific Management Board exemption. The Ministry maintains that this practice was clearly presented in submissions to Management Board and received the concurrence of procurement specialists. The Ministry accordingly believes approval was implicit in Management Board's authorization to proceed with the initiative. The Provincial Auditor's concerns however will be addressed and the Ministry will seek specific Management Board direction on this subject.

SURPLUS ASSETS

The Management Board of Cabinet assigned to the Ministry the sole responsibility to arrange for the disposal of all government-owned vehicles. All such disposal arrangements must be equitable to all potential buyers, avoid conflict of interest concerns and optimize the returns to the government. Ministry policy states that all such surplus equipment must be disposed of through public auction. However, the request for proposal for the outsourcing of highway maintenance services allowed for the successful bidder to buy or lease surplus vehicles and equipment directly from the Ministry. Such equipment included trucks, snow plows, front-end loaders, tractors and graders.

We noted that for the five area maintenance contracts awarded, ministry equipment was either sold or leased to the successful bidders for a total of \$6.5 million. This practice is not equitable to all potential buyers, and there is no assurance that the Ministry optimized its returns from the disposal of vehicles and equipment. In addition, the Ministry did not request or obtain approval from Management Board of Cabinet to be exempted from this policy.

To sell or lease surplus equipment to the successful bidder is contrary to Management Board of Cabinet directives. In addition, including the option to lease or purchase surplus equipment in the request for proposal distorts the bid price and makes any subsequent comparison to the Ministry's estimate misleading. Contractors may reduce their bid price, knowing that they do not have to purchase new equipment. For subsequent contracts, contractors may have to increase their bids to purchase new equipment because the Ministry will not have equipment to offer at a potential discount. This situation may also provide an unfair advantage to the incumbent contractor when the initial outsourcing contract expires.

Recommendation

To ensure that the Ministry optimizes its returns on the sale of surplus assets by allowing all potential buyers an equal opportunity to purchase surplus vehicles and equipment, the Ministry should dispose of surplus assets through public auction as required by the Management Board of Cabinet directives and ministry policy.

Ministry Response

The sale, in the area maintenance contract (AMC), of equipment normally used to perform the work is integral to the successful implementation of an AMC by the contractor. It is the Ministry's position that the sale of these surplus equipment assets was done in an open and competitive manner and achieves the best overall value by virtue of being tendered as part of each AMC contract. The Ministry maintains that this practice received the concurrence of procurement specialists. The Ministry accordingly believes approval was implicit in Management Board's authorization to proceed with the initiative. The Provincial Auditor's concerns however will be addressed and the Ministry will seek specific Management Board direction on this subject.

COMPLIANCE WITH POLICIES, PROCEDURES AND CONTRACT TERMS

SELECTION OF MAINTENANCE CONTRACTORS

The Ministry's contractor selection process includes a pre-qualification and a proposal evaluation stage. The pre-qualification process determines the financial strength of the contractors while the proposal evaluation process evaluates the contractor's ability and knowledge with respect to providing highway maintenance services. The evaluation process

rates each contractor on several criteria with minimum scoring requirements to be achieved in each area before the contractor can continue through the process. In addition, there is a minimum overall score that contractors must attain to be awarded the contract. We concluded that the Ministry had a proper process in place to select highway maintenance contractors and selected the bidders with the lowest evaluated price and maximum score.

In one district, we noted that ministry employees who were involved either on the evaluation team or the approval process had left the Ministry to accept positions with the successful bidder. We could not determine the impact, if any, the employees may have had on the awarding of this contract. However, since that time Management Board of Cabinet issued a directive to address such cases, and the Ministry has included a conflict-of-interest clause in requests for proposals.

3.14

MONITORING OF MAINTENANCE SERVICES

Under the *Public Transportation and Highway Improvement Act*, the Ministry is responsible for the maintenance and repair of all highways in the province. As the Ministry shifts from providing the service directly to having contractors carry out the work, it is important that the Ministry have an appropriate monitoring system in place to ensure fulfilment of its legislative responsibilities. In this regard, the Ministry has included standards in area maintenance contracts that contractors must follow in providing maintenance services.

The Ministry has assigned area maintenance coordinators to monitor highway maintenance. Each coordinator is assigned an area of 300 to 500 kilometres of highways. Their responsibilities include patrolling the highways and inspecting the work carried out by the contractors. The coordinators determine whether the maintenance standards are being met and provide assurance that the highways are safe for public use. In addition, the coordinators are required to maintain detailed records of their monitoring efforts.

For any monitoring effort to be successful, there need to be qualified staff who understand the maintenance business. We reviewed the qualifications and experience of the maintenance coordinators and found that they were qualified to ensure that the work performed by contractors met ministry standards. However, we had the following concerns:

- The maintenance coordinators in the districts we visited stated that the areas patrolled were too large and there were insufficient staff to adequately monitor the work of the contractors. We were also advised that since some of the contractors' staff were former ministry employees, some coordinators assumed that maintenance work was being carried out as required. This results in an additional risk of insufficient monitoring to ensure contractors meet ministry standards.
- Maintenance coordinators generally do not maintain detailed records of their monitoring efforts. Such documentation is important to support the evaluation of contractor performance and to assist in any legal cases involving alleged negligence by the Ministry in maintaining safe highways. In addition, minutes of meetings with contractors were often not detailed enough to determine the resolution of any apparent deficiencies in the contractors' work.

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- Agreements with contractors include penalties, such as damages for non-performance of maintenance activities. However, we noted that maintenance coordinators in the pilot district issued several verbal warnings to the contractor, sometimes for the same violation. The coordinators did not assess penalties under the terms of the contract even though penalties were warranted. In addition, we noted several records of violations with little or no documentation indicating how they were resolved.

Recommendation

In order to fulfil its obligations under the *Public Transportation and Highway Improvement Act*, the Ministry should establish procedures to ensure that:

- the monitoring function is effectively carried out;
- maintenance coordinators maintain sufficiently detailed records of their monitoring efforts; and
- penalties are assessed where warranted according to the terms of the maintenance contracts.

Ministry Response

The Ministry has recently reviewed the staffing requirements involved in monitoring the maintenance contracts. The Ministry believes that staffing levels are appropriate to protect the Ministry and public. The Ministry's experience is that the level of monitoring currently in place works effectively. Ministry field monitoring levels are significantly higher than in another province using similar contracting methods.

Although the Ministry is of the opinion that the appropriate monitoring and enforcement of maintenance contract provisions are in place, it has recognized the need to improve documentation procedures. Standardized diaries and work records are currently being developed by the Ministry's Maintenance Office. Training in the use of these diaries and work records will be provided as appropriate.

The Ministry has established mechanisms to ensure contract provisions are applied fairly and consistently. In addition the Ministry is also considering further refinements to the processes currently in place. The Ministry has also implemented training for staff who directly administer the contracts. There are also significant penalties to address failures to comply with contract provisions.

CONTRACT PERFORMANCE EVALUATION

Ministry policy requires the preparation of a formal evaluation at the completion of a contract to ensure that it has received the best value for the money expended and that the contractor's performance was satisfactory. Since none of the area maintenance contracts had been completed, there were no evaluations done. However, in one district where managed

outsourcing contracts had been completed, we noted that subsequent contracts were awarded without consideration given to the past performance of the contractors. The most current contract performance evaluations on file were done in 1997. We also noted that there was no mechanism in place for regions to exchange information regarding the past performance of contractors.

Recommendation

To ensure that only competent contractors are selected and that the best value for the funds expended is received, the Ministry should formally evaluate all contractors upon completion of maintenance service contracts and before awarding subsequent contracts. In addition, the Ministry should develop a system to allow regions to share information regarding a contractor's past performance.

Ministry Response

The Ministry is considering a review of the Maintenance Contractors' Performance Appraisal System for all maintenance contracts along with a pre-qualification system for major maintenance work (similar to construction pre-qualification). Under a maintenance pre-qualification system, poor performance could result in a reduced rating and ability to bid on ministry maintenance contracts.

Ministry policy requires Maintenance Contractors' Performance Appraisals to be performed on maintenance contractors. Those who perform in an unsatisfactory manner may be prohibited from bidding on any ministry contracts for a period of time. A system to compile a provincial database on maintenance contractor appraisals is being considered.

CHAPTER FOUR

Follow-up of Recommendations in the 1997 Annual Report

Since 1993 it has been our practice to make specific recommendations for corrective action by ministries and agencies, and two years after publication of the recommendations in our Annual Report to follow up on the status of action taken. This chapter provides some background on the audits comprising the Value for Money Chapter of our *1997 Annual Report* as well as the current status of implementing the recommendations made. We are pleased that in many cases our recommendations have been either fully or substantially implemented. However, in several cases, progress has been slow or is ongoing. In cases where the recommendations have not been implemented, or are still in the process of implementation, a brief description of the current status of action taken by the ministries is provided.

Ministry of the Attorney General: Courts Administration Program — 3.01

BACKGROUND

The Courts Administration Program supports the operations of the court system through a network of about 250 courthouses. The Program includes the provision of courtroom staff such as clerks, interpreters, and reporters; the preparation of enforcement documentation and enforcing orders, and the maintenance of court records and files; the provision of support services such as trial coordination, court statistics, case flow management and information technology; and the collection of fines.

In 1997 we assessed whether procedures were in place to ensure that the Program's resources were managed with due regard for economy and efficiency; to measure and report on the effectiveness of the Program's contribution toward achieving the Ministry's goal of becoming a modern, more accessible and more effective justice system; and to ensure proper control over the collection of fines.

CURRENT STATUS OF RECOMMENDATIONS

The status of actions taken on our recommendations is as follows:

ACCOUNTABILITY

Recommendation

To help the justice system function more effectively, the Ministry and the Judiciary should ensure that reform of the management of court services clearly establishes accountability and responsibility for achieving desired results.

Current Status

A project steering committee is currently finalizing proposals for governance structures, reporting mechanisms and organizational structures. The Ministry is continuing its consultation with the Judiciary to develop accountability mechanisms.

According to the Ministry, the implementation of case management will support these mechanisms.

BACKLOGS

Recommendation

To more effectively deal with backlogs, the Ministry should work with the Judiciary:

- *to systematically collect and analyze information on the progress of court cases, such as the amount of time taken by each stage of a case and the reasons for the delays; and*
- *to develop approaches for making use of that information in monitoring and preventing delays.*

Current Status

The Ministry has taken two approaches to resolve the backlog of pending cases. In the short term, the Ministry conducted a blitz in the six most clogged courts with the cooperation of those involved in the process. The Ministry reports that the total number of charges pending has been reduced by 27.5 % from November 1996 to November 1998, and, in the six backlogged sites, the charges pending over eight months have been reduced by 53%. For the long term, the Criminal Justice Review Committee released a report in early 1999 which recommended practical solutions to increase the efficiency of the criminal courts, further reduce the delay in bringing matters to trial and shorten trials.

CASE INFORMATION

Recommendation

Given that the Integrated Justice Technology Project is not expected to produce better information for a number of years, the Ministry should work together with the Judiciary in the interim to identify what information is necessary and can be provided to the courts to improve case flow and case management.

Current Status

In the interim, Court Services Division developed case flow management systems for Toronto and Ottawa. These systems are used to assist with scheduling and to record information of cases, parties/lawyers, documents, events, time standards (deadlines for stages of litigation) and historical information (an amalgamation of all the above information).

The Integrated Justice Project is scheduled to commence implementation of a province-wide case management system in late 1999 and is expected to be complete in 2001.

FINANCIAL INFORMATION

Recommendation

To improve financial information for resource management, planning and decision making, the Ministry should:

- *establish costing benchmarks and collect information for assessing the economy and efficiency of its services and activities; and*
- *work with participants in the justice system to determine what information is needed to assess the costs of achieving desired results and how it could be collected.*

In addition, the Ministry should include a component for collecting cost information in its system development initiatives.

Current Status

A management information system project was established to ensure that necessary management information tools are in place to support the legal system in future. To date, a Financial Information Tool, a Salary Management System, and executive Management Information Report and Business Intelligence software products have been implemented.

The Ministry indicated it has implemented a costing benchmark to account for the acquisition and usage of information technology.

MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

Recommendation

The Ministry, together with the Judiciary, should improve the measures of effectiveness which contribute to a modern, more accessible and more effective justice system by:

- *determining which of the effectiveness attributes are most relevant for its operations; and*
- *developing program-specific performance indicators and targets against which the achievement of results can be measured.*

Current Status

Various measures are being developed at corporate and program levels by the Judiciary and other stakeholders on an ongoing basis. The Ministry indicated that such measures will be

accompanied by indicators and targets to monitor progress and reflect how well the Ministry meets its performance objectives.

COLLECTION OF FINES – TIMELINESS OF COLLECTION

Recommendation

To help ensure that fines are promptly collected, the Ministry should work with the Central Collection Service:

- *to clearly establish the roles and responsibilities for monitoring the collection of fines in its Memorandum of Understanding with the Central Collection Service; and*
- *to improve procedures so that overdue fines can be more promptly transferred.*

Current Status

To date, the Ministry has entered into a service level agreement with a new unit, the Collection Management Unit, which manages five private collection agencies' collection of outstanding *Criminal Code* and *Provincial Offences Act* fines. A new information system is to be implemented by the Collection Management Unit to improve the current reporting limitations.

COLLECTION OF FINES – INFORMATION ON OVERDUE ACCOUNTS

Recommendation

To improve the collection of fines, the Ministry should modify its system for tracking fines so that fines can be identified both by case number and the identity of the person owing the fine.

Current Status

The Ministry is currently developing a new criminal case management system which includes a specification that allows charges to be tracked by individual.

COLLECTION OF FINES – ENFORCEMENT MEASURES

Recommendation

To improve the rate of fine collection, the Ministry should work with the Central Collection Service to assess the merits of implementing measures to more vigorously pursue overdue fines.

Current Status

The transfer of the Ministry's fine collection activity together with the administration of the *Provincial Offences Act* to municipalities commenced in March, 1999. The Ministry will explore options and recommendations for collecting the remaining \$65,000,000 through a review of best practices in other jurisdictions.

Ministry of Citizenship, Culture and Recreation:

Culture Activity — 3.02

BACKGROUND

The cultural activities of the Ministry of Citizenship, Culture and Recreation are designed to encourage the arts, support cultural industries, preserve Ontario's heritage, and advance the public library system. The Culture Division oversees cultural agencies and is responsible for the development of policies and the operation of programs in support of the arts, heritage, cultural industries and libraries.

In 1997 we assessed whether the Division had adequate procedures in place to ensure that cultural resources were managed with due regard for economy and efficiency. We also assessed whether the Division held cultural agencies accountable for their expenditure of public funds and whether procedures to measure and report on the effectiveness of cultural activities were adequate.

CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following matters have been substantially implemented: program delivery, grant monitoring, library sector funding, library services review, agency accountability, the planning process and performance measurement and reporting.

With respect to our other recommendations, the status of action taken is as follows:

GRANT ELIGIBILITY

Recommendation

In order to ensure that only eligible recipients and costs are funded, the Ministry should establish procedures to ensure compliance with the requirements of the legislation and ministry policy.

Current Status

Our concerns regarding grant eligibility for cultural project grants have been substantially addressed. The Ministry is in the process of implementing our recommendation regarding grant eligibility as it relates to grants to community museums.

In the 1998/99 fiscal year, requests for funding from three museums were rejected due to noncompliance with the eligibility criteria and a further 23 museums had their grants reduced. In the 1999/2000 fiscal year, all museums will be measured against the *Standards for Community Museums*. Action will be taken to discontinue funding museums that fail to meet the standards. The Ministry has also undertaken to revise the program in 2000/2001 in consultation with the museum community.

PROGRAM FUNDING

Recommendation

To ensure that program funding is allocated on a more reasonable and equitable basis, the Ministry should periodically review the methods of funding and revise them where necessary.

Current Status

Our concerns regarding funding for cultural project grants have been substantially addressed. The Ministry is in the process of implementing our recommendation regarding program funding as it relates to grants to community museums. Through consultations with the museum community, the Ministry will be revising the program. The revised program will address inconsistencies in the allocation of funding and include rigorous measurement against updated standards. The revised grant program is scheduled to be implemented in the 2000/2001 fiscal year.

4.00

Ministry of Community and Social Services: Child and Family Intervention Program — 3.03

BACKGROUND

The Child and Family Intervention (CFI) program of the Ministry of Community and Social Services provides for a range of services designed to alleviate social, emotional and/or behavioral problems experienced by children and their families. Under provisions of the *Child and Family Services Act*, the program provides transfer payments to approximately 200 community-based agencies that deliver such services as psychiatric therapy, counseling, skills training and education, as well as residential services to children who require more intensive assistance. For the 1996/97 fiscal year, the Ministry's total funding of children's services was approximately \$1.3 billion, of which \$189 million related to the CFI program.

Our 1997 audit assessed whether the Ministry's administrative procedures were adequate to ensure that transfer payments to agencies were reasonable and satisfactorily controlled and whether the quality of services provided was monitored and assessed.

We found that the Ministry's administrative procedures required significant improvements to ensure that transfer payments to agencies are reasonable and satisfactorily controlled and the quality of services provided is monitored and assessed. As a result, we made a number of recommendations for improvements.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has made only limited progress toward implementing our recommendations. The status of the actions taken with respect to each recommendation is as detailed below.

AGENCY FUNDING AND BUDGET REQUESTS

Recommendation

To help provide an appropriate basis for making funding decisions and to help ascertain whether taxpayers' money is spent prudently, the Ministry should ensure that all agencies include sufficiently detailed and relevant information in their program budget submissions.

Current Status

The Ministry advised us that minimum expectations for service design features had been developed and distributed to area offices in January 1998.

However, for the 1998/99 budget year, an internal review found that approximately two thirds of the agency budget requests had either not been received or had not been reviewed and approved by early 1999. This diminishes the value of any additional information that may have been received.

PROGRAM COST COMPARISONS

Recommendation

In order to help ensure that program funding is reasonable and appropriate for the services provided, the Ministry should:

- *obtain sufficiently detailed information to establish criteria to assess program comparability; and*
- *compare the costs of similar programs across the province. Significant cost variations should then be explained and justified.*

Current Status

We were advised that a ministry research study on how resources were being used was completed in January 1998. An advisory group of stakeholders reviewed the findings and recommendations of the research study and issued its final report in December 1998. Both the original research study and the advisory group's final report is being reviewed by the Children's Services Branch, after which the formal ministry approval process will begin.

ANNUAL PROGRAM EXPENDITURE RECONCILIATIONS

Recommendation

To improve the effectiveness of the expenditure reconciliation process in assessing the reasonableness of expenditures and in supporting future funding decisions, the Ministry should ensure that the information submitted in the Annual Program Expenditure

Reconciliations (APERs) and audited financial statements is sufficiently detailed to identify inappropriate or ineligible expenditures.

Current Status

The Ministry has given direction to its area offices with respect to the interpretation of and adherence to policies relating to APERs. This also included enhanced accountability for, and timely completion of, APERs.

We were advised by the Ministry that, provincially, approximately 90% of the 1997/98 APERs had been completed by July 1999.

SURPLUS RECOVERY

Recommendation

The Ministry should review the agency funding arrangements that result in year-end expenditure surpluses and establish more effective procedures to recover these surpluses where appropriate.

Current Status

The Ministry's area offices have automated the APER status reports. In addition, ongoing support is provided to area offices with respect to the recovery and reallocation of surpluses according to local program needs. However, the Ministry was unable to provide us with information with respect to surplus amounts recoverable, recovered and outstanding from agencies by fiscal year.

PERFORMANCE MEASUREMENT

Recommendation

To improve the effectiveness of the Child and Family Intervention program, the Ministry should implement and monitor outcome indicators, some of which have already been developed.

Current Status

In January 1999, the Ministry issued draft guidelines for developing program-level performance measures. These measures were being revised based on feedback received from staff orientation/review sessions. The Ministry expected revised guidelines to be approved during 1999 and widely distributed thereafter.

QUALITY OF SERVICE

Recommendation

To help ensure that services provided by agencies are of an acceptable quality and represent value for money spent, the Ministry should establish standards for acceptable service quality and criteria for evaluation and periodically evaluate service quality with a view to identifying required corrective actions.

Current Status

The Ministry has developed draft guidelines for developing program-level performance measures articulating how performance measures are to be integrated into service contracts and setting out roles and responsibilities for collecting and reporting data. The draft guidelines were being reviewed and the Ministry expected them to be approved during 1999.

MANAGEMENT INFORMATION

Recommendation

The Ministry should ensure that it obtains the information necessary to determine whether services are provided cost effectively.

Current Status

The implementation of the Services Management Information System (SMIS) was completed in November 1997 for all area offices and in August 1998 for the corporate offices. This system allows for the timely input and retrieval of data about the services provided by all of the Ministry's transfer payment agencies.

The Ministry was aware of the need for staff training on the new system and was surveying users' needs in order to develop and implement an appropriate training program in 1999/2000.

PROFESSIONAL SERVICES

Recommendation

To help ensure that agency payments for the professional services of psychologists and psychiatrists are reasonable and consistent, the Ministry should establish guidelines for agencies to follow when paying for such services.

Current Status

The Ministry's information systems lacked the necessary detail for determining what constitutes reasonable and consistent payment for professional services provided to agencies. We were advised that the Ministry intends to test various approaches for improved data collection to assist in the establishment of guidelines for agencies to follow when paying for professional services.

Ministry of Community and Social Services:

Transfer Payment Agency Accountability and Governance —

3.04

4.00

BACKGROUND

The Ministry of Community and Social Services plans and arranges for a wide variety of social services throughout Ontario, including services for children and families, young offenders and persons with developmental or physical disabilities. In most instances, the Ministry does not deliver services itself. Instead, it provides strategic direction and annual funding for service planning and delivery to approximately 3,400 community-based mostly non-profit agencies. Ministry transfers to all of its agencies for the 1996/97 fiscal year were estimated at \$2.1 billion.

Our 1997 audit assessed whether the Ministry had established and communicated to its transfer payment recipient agencies reasonable expectations for their accountability to the Ministry as well as for agency governance. As well, we assessed whether the Ministry had procedures in place to determine whether transfer payment recipient agencies were meeting the Ministry's expectations.

We found that the Ministry needed to significantly improve transfer payment agency accountability and encourage effective agency governance. As a result, we made a number of recommendations for improvements.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry's work toward implementing our recommendations is in its early stages. The Ministry approved a Governance and Accountability Framework for transfer payment agencies (and municipal service providers) in June 1999. A cross-ministry project team has been established to implement the Framework, which deals with the spectrum of governance, accountability and service outcome issues discussed below. The Ministry expects detailed plans for implementing the first stages of the Framework to be put in place during 1999/2000. The status of the actions taken with respect to each of our recommendations is as detailed below.

SERVICE OUTCOMES

Recommendation

In order to help determine whether services provided by transfer payment agencies are effective, appropriate and represent value for money spent, the Ministry should, where practical, establish measurable and meaningful service outcomes. In cases where it is not practical to establish such service outcomes, the Ministry should establish appropriate service expectations and criteria for performance evaluation.

The Ministry should then periodically assess service outcomes or alternatively service quality and take corrective action where necessary.

Current Status

We were advised that the Ministry has a number of initiatives under way which, when completed, should result in measurable service outcomes. For example:

- Under child welfare reform, preliminary work was in progress to collect data on two selected client outcome indicators from Children's Aid Societies. With the development of a comprehensive provincial information system, service and client outcome performance indicators will be collected on a regular basis.
- As part of the approved service delivery model for its Business Transformation Project, key performance indicators will be developed which will link legislation and regulations to program objectives and standards.
- Under the Ministry's Making Services Work for People initiative, provincial service standards are to be implemented across the province by April 1, 2000.

AGENCY FUNDING REQUESTS AND APPROVALS

Recommendation

In order to help ensure that service funding is equitable and appropriate for each agency, the Ministry should:

- *critically assess requests for funding and ensure that the amounts approved are commensurate with the demand for and value of the underlying services to be provided; and*
- *review and approve budget requests on a more timely basis.*

Current Status

The Ministry had a number of initiatives under way whose purposes, among other things, were to develop funding benchmarks which more closely relate funding to the need for and value of the underlying services to be received. While progress on these initiatives was in varying stages of completion, none had been completed and/or implemented at the time of our follow-up.

ANNUAL PROGRAM EXPENDITURES RECONCILIATIONS

Recommendation

In order to improve the effectiveness of the Ministry's Annual Program Expenditure Reconciliation process and obtain useful information for the subsequent year's funding decisions, the Ministry should:

- *ensure that both the Annual Program Expenditure Reconciliations and audited agency financial statements contain sufficiently detailed and comparable information to allow detection of ineligible or inappropriate expenditure items; and*

-
- *review and appropriately act on all Annual Program Expenditure Reconciliation results on a more timely basis.*

Current Status

For the 1999/2000 fiscal year, the Ministry intends to incorporate the Annual Program Expenditure Reconciliation (APER) package with the agency budget request package for the following year. The Ministry expects that this will help ensure that sufficiently detailed APER information is received and that APERs are completed in a timely manner.

OTHER ACCOUNTABILITY REQUIREMENTS

Recommendation

In order to help ensure that it effectively establishes and manages services delivered by transfer payment agencies, the Ministry should:

- *define its service management roles and responsibilities in a way that allows it to effectively establish and monitor service delivery; and*
- *obtain and analyze the information necessary for effective service management.*

Current Status

The Ministry was developing an information technology strategy to address its business directions for the next three years. The final report on this strategy was submitted to the Ministry's Business Planning and Allocation Committee and distributed throughout the Ministry in January 1999.

In addition, the Service Management Information System has been implemented. This system automates the transfer payment process and provides a mechanism for monitoring contract performance and for tracking and assessing program performance measures when established.

The Ministry also expected to implement the Child Welfare Information system during 1999.

AGENCY GOVERNANCE

Recommendation

In order to enhance the reliance the Ministry is able to place on transfer payment agencies' governance and service delivery, the Ministry should:

- *establish its expectations for the roles and responsibilities of boards of directors in the overall service systems management process and their accountability to the Ministry; and*
- *provide guidance on operating policies and procedures necessary for meeting the Ministry's program objectives economically, efficiently and effectively.*

Current Status

The Ministry approved a Governance and Accountability Framework for transfer payment agencies in June 1999. The Ministry expects that detailed plans for implementing the framework will be put in place during 1999/2000.

For child welfare agencies, the Ministry intends to set requirements for mandatory board training and development, including requirements to report on participation in board training programs and events. The Ministry intends to specify expectations concerning the composition of boards of directors.

Ministry of Community and Social Services:

Young Offender Services Program — 3.05

BACKGROUND

The Young Offender Services program is administered by the Ministry of Community and Social Services under the authority of the provincial *Child and Family Services Act* and Regulations. The program provides services primarily to youths aged 12 to 15 years who are charged under the federal *Young Offenders Act* with a *Criminal Code of Canada* offence or under the *Provincial Offences Act*. The objective of the Ministry's Young Offender Services program is to protect society through a combination of programs that provide for the safety and security of offenders, and to actively assist, support and encourage the offenders to become law-abiding citizens.

For the 1996/97 fiscal year, the Ministry spent \$127 million on young offender services, including \$79 million in transfer payments to approximately 100 agencies. The federal government contributed approximately \$24 million toward these costs under the provisions of the Young Offenders Cost Sharing Agreement.

Our 1997 audit assessed whether the Ministry's procedures were adequate to ensure that legislative and judicial requirements and program policies and procedures were complied with and whether the program was being delivered with due regard for economy, efficiency and effectiveness.

We found that the Ministry's administrative procedures required strengthening to ensure compliance with legislative and judicial requirements and program policies and procedures. As well, we found that improvements were needed in several areas to ensure that the program was being delivered with due regard for economy, efficiency and effectiveness. As a result, we made a number of recommendations for improvements.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has substantially implemented our recommendations relating to the following areas:

- Case Management;
- Compliance with Court Orders; and

-
- Licensing of Residential Facilities.

However, the Ministry had made only limited progress with respect to the following recommendations.

BRING FORWARD NOTES

Recommendation

In order to help ensure that all the required documentation needed to perform an effective case management function is prepared and updated in a timely manner, the Ministry should remind its probation officers that:

- *although optional, the bring forward feature on the Young Offenders Strategic Information System should be used to monitor risk/needs assessment and case management plan due dates; and*
- *outstanding bring forward notes should be cleared on a timely basis.*

Current Status

Staff have been trained on the Young Offender Strategic Information System, including the bring forward notes function. However, a ministry review found that there was no improvement in required updates as the system indicated that a number of required updates were overdue.

CASE FILE REVIEW

Recommendation

To ensure that ministry policy is followed, and that probation officers perform their duties satisfactorily, the Ministry should require probation supervisors to review a representative sample of young offender files for each probation officer and adequately and consistently document the results of their reviews.

Current Status

The Ministry has developed a standard checklist to assist probation officers in documenting their case files and probation supervisors in monitoring the probation officer's duties. The Ministry now requires supervisors to conduct monthly reviews of the officers' work to ensure compliance to Young Offender Services Manual standards. However, an internal review of files at three area offices found that the required monthly reviews of the probation officer's work were not always completed.

AGENCY ACCOUNTABILITY AND AGENCY FUNDING

Recommendation

In order to help ensure that total program funding and subsequent expenditures are reasonable and appropriate, the Ministry should assess the reasonableness of all funding requests and compare the costs of similar programs. Significant cost variations should then be explained and justified before funding is approved.

Current Status

The Ministry was working on a Children's Levels of Support project to develop and make recommendations regarding provincial benchmarks for direct-care staffing levels and to develop a model to estimate unit cost of service for direct-care and program management components of residential services. The Ministry expected to complete the project in the fall of 1999, after which it intends to begin the formal ministry approval process.

ANNUAL PROGRAM EXPENDITURE RECONCILIATION

Recommendation

In order to improve the effectiveness of the expenditure reconciliation process in assessing the reasonableness of expenditures and in supporting future funding decisions, the Ministry should ensure that:

- *the information submitted in the Annual Program Expenditure Reconciliations and the audited financial statements is sufficiently detailed to permit a more meaningful review; and*
- *all agency Annual Program Expenditure Reconciliations and audited financial statements are received, reviewed and approved on a timely basis*

Current Status

We understand that the Annual Program Expenditure Reconciliation (APER) form and instructions were updated in June 1998 to reflect financial policy changes and improve clarity. In addition, the Ministry advised us that as of July 1999, on a provincial basis, approximately 90% of the 1997/98 APERs had been completed and signed off.

SURPLUS RECOVERY

Recommendation

The Ministry should review the agency funding arrangements that result in year-end expenditure surpluses and establish procedures to recover these surpluses.

Current Status

The Ministry's head office was providing ongoing support to area offices with respect to the recovery and reallocation of surpluses according to local program needs. However, the Ministry was unable to provide us with information with respect to surplus amounts recoverable, recovered and outstanding from agencies by fiscal year.

PROGRAM EFFECTIVENESS

Recommendation

*In order to determine whether the Young Offender Services program is effective, the Ministry should implement and monitor the outcome indicators already developed. If considered feasible, this evaluation should also include measuring the success of the various programs in rehabilitating young offenders over the long term.**

Current Status

We were advised that the Ministry has reviewed program-level performance measures in other jurisdictions and has drafted guidelines for developing further program-level measures across ministry program sectors.

In addition, baseline data related to service outcomes has been collected from area offices and will be reviewed to identify key issues during 1999/2000. The Ministry expected an interim report on ministry recidivism findings to be completed later this year.

STAFFING

Recommendation

To better assess the reasonableness of staffing levels, especially in light of the many program policy changes since 1990, the Ministry should establish a more current workload expectation.

Current Status

We understand that the Ministry has conducted pilot probation compliance reviews which were completed in December 1998. The purpose of these reviews was to help streamline administrative expectations through updated documentation standards. The results were summarized and reviewed in February 1999. Based on the reviews, the Ministry expected a complete implementation plan and revised tools to be developed for approval in the fall of 1999.

An internal review found that current caseloads were still high, ranging from 55 to 91 cases per full-time-equivalent position.

Ministry of Education and Training: Ontario Student Assistance Program — 3.06

BACKGROUND

The Ontario Student Assistance Program is a federally and provincially funded program that provides needs-based financial assistance to students to enable them to attend an approved postsecondary institution. Provincial financial assistance to students is provided primarily through loans under the Ontario Student Loans program. As of March 31, 1997, some 438,000 Ontario Student Loans totalling \$2,195 million were guaranteed to financial institutions by the province. About 32%, or \$714 million, was loaned to students who had completed their studies and were repaying their loans. It was expected that approximately \$800 million, or over half of the remaining loans, would be forgiven in the future. Program expenditures for the 1996/97 fiscal year were \$335 million.

In 1997, our audit objectives included assessing whether adequate systems and procedures were in place to ensure that the Program was being delivered economically, efficiently and in accordance with its legislated authority and approved policies and guidelines.

As of June 1999, the Program is being administered by the Ministry of Training, Colleges and Universities.

CURRENT STATUS OF RECOMMENDATIONS

Although few of our recommendations have been fully implemented, the Ministry had taken several significant actions to address them. The Ministry expects that these initiatives, once they are fully implemented, will result in:

- better oversight of the program delivery activities of postsecondary institutions by the Ministry;
- better verification of the information provided by students in their applications for assistance;
- greater assurance that payments to financial institutions are appropriate; and
- more accountability for student assistance and postsecondary programs.

Several new measures had been introduced to reduce loan defaults and improve collection efforts and results. It was too early to assess whether these measures will be sufficient to significantly improve default rates and collection results.

Significant actions taken and planned by the Ministry on our recommendations are as follows:

CONTROLS OVER POSTSECONDARY INSTITUTIONS

Recommendation

In order to improve the way postsecondary institutions deliver key aspects of the Ontario Student Assistance Program, the Ministry should:

- *establish agreements with approved postsecondary institutions that set out mutual responsibilities and appropriate accountability and reporting requirements;*
- *develop a program for inspecting postsecondary institutions based on analyses of the risk of abuse by students or institutions;*
- *perform regular audits in order to identify postsecondary institutions that do not adhere to program requirements or abuse the program; and*
- *establish appropriate disciplinary measures for institutions that do not meet requirements.*

Current Status

Performance agreements had been established with all private vocational schools, including external compliance audit requirements and the disciplinary actions the Ministry may take when schools fail to comply with program requirements. Similar arrangements had also been established with colleges of applied arts and technology and negotiations were in progress with

universities. Independent testing of private vocational schools for compliance with program requirements began in 1998.

APPLICATIONS ADMINISTRATION

DETERMINING LOAN ENTITLEMENT AMOUNTS

Recommendation

In order to ensure that loan entitlements are properly determined, the Ministry should:

- *update needs assessment criteria to use more recent federal information;*
- *give due consideration to student and spousal assets when calculating loan entitlements; and*
- *require explanations from applicants who report personal and spousal incomes below a specified level.*

Current Status

Our recommendation for determining loan entitlement amounts had been substantially implemented.

CHILD CARE SUPPORT

Recommendation

To improve controls over bursary payments and in particular child care support, the Ministry should:

- *revise procedures and system controls to ensure that child care support is not provided to students who fail to submit receipts; and*
- *establish appropriate reporting and monitoring procedures for bursary funds managed by postsecondary institutions' financial aid offices.*

Current Status

New guidelines for administering child care support by postsecondary institutions had been established, including a requirement that students submit appropriate receipts for child care expenses. In addition, audits of child care bursaries administration were completed at one college and one university in March 1998. Regular audits were being negotiated as a component of the accountability arrangements contemplated for colleges of applied arts and technology and for universities.

VERIFICATION OF INCOMES WITH REVENUE CANADA INFORMATION

Recommendation

In order to enhance the effectiveness of using Revenue Canada income tax information to verify incomes, the Ministry should:

- *revise its needs assessment criteria and applications to include consideration and reporting of a student's income for both the prior year and the 16 weeks prior to starting school; and*

-
- *investigate students with significant discrepancies between incomes reported to Revenue Canada and the Ministry and consider more severe actions against those students, such as requiring immediate repayment of loans or, in cases of gross misrepresentation, taking legal action.*

To reduce the risk of overpayments under the Loan Forgiveness Program, income verification should be done on a more timely basis and forgiveness should not be authorized until income verification has been completed.

Current Status

Procedures had been established to ensure that income verification is done on a regular annual basis using Revenue Canada data. Applicants are now required to report their income for the prior year, as well as the 16 weeks prior to starting school. Effective the 1998-99 academic year, students with large income discrepancies in previous years are ineligible for further support.

For loans issued after July 1998, the Loan Forgiveness Program was replaced with the Ontario Student Opportunities Grant. The new program pays grants to reduce a student's loan to a specified maximum per year after the student successfully completes their academic year. The Loan Forgiveness Program required students to enter into repayment arrangements with their lenders within six months of completing their studies. Therefore, the risk that students may receive loan forgiveness before their income has been verified or before they have entered into a repayment arrangement will be removed once the program is phased out.

ADDITIONAL VERIFICATION MEASURES

Recommendation

In order to enhance controls over eligibility and needs verification, the Ministry should investigate the costs and benefits of establishing data linkages with other information databases.

Current Status

Data linkages with the Ministry of Community and Social Services had been established on a pilot basis for identifying students inappropriately receiving both student and social assistance support. We were advised that a permanent linkage was planned for the 1999/00 fiscal year. The Ministry was also in the process of obtaining access to driver licence information from the Ministry of Transportation.

FINANCIAL MANAGEMENT

AGREEMENTS AND PROCEDURES WITH FINANCIAL INSTITUTIONS

Recommendation

In order to improve payment processing efficiency and to formalize relationships with financial institutions, the Ministry should:

- *establish plans, timetables and commitments for reducing backlogs to a more manageable level;*

- *negotiate formal agreements with the financial institutions for implementing the new automated financial arrangements and for clarifying program delivery expectations; and*
- *track the achievement of the benefits arising from the proposed Electronic Data Interchange arrangements with the financial institutions.*

Current Status

Several systems and procedural changes were implemented to address its backlog of over 150,000 documents rejected by the Ministry's automated processing systems. As of February 28, 1999, the Ministry advised us that there were approximately 125,000 documents backlogged, which was significantly less than there would have been had these initiatives not been taken. Further reductions will be possible once all major lenders agree to implement full electronic data interchange with the Ministry.

PAYMENT SYSTEM WEAKNESSES

Recommendation

In order to better ensure that payments to financial institutions are appropriate, the Ministry should:

- *determine and correct differences in important information on its two major databases and examine options for better integrating its two databases to avoid differences arising in future;*
- *ensure that complete information is received on the actual amounts that students obtained for Canada Student Loans; and*
- *ensure that systems and procedures for processing forgiveness payments comply with legislation.*

The Ministry should also obtain the actual amounts of Canada Student Loans issued in the last three years in order to determine and recover overpayments of loan forgiveness.

Current Status

Key elements of the Ministry's two systems were integrated in October 1997. As a result, new data is entered once to update both databases. The Ministry's efforts to require banks to reconcile their loans data should result in improvements in the accuracy of the database once all lenders are completed.

Lenders are now required to provide the actual amount of Canada Student Loans negotiated to the Ministry. However, according to the Ministry, neither the federal government nor lenders could provide the information in a format needed to calculate the potential value of loan forgiveness overpayments made based on authorized rather than actual loans issued. Thus, the Ministry was unable to recover the estimated \$5 million annually that was overpaid under the Loan Forgiveness Program. As stated earlier, the Loan Forgiveness Program has been replaced.

DEFAULTED STUDENT LOANS

Recommendation

In order to reduce the losses arising from defaulted student loans, the Ministry should:

- *ensure that systems are in place to promptly process defaulted claims and expeditiously transfer delinquent accounts to the private collection agencies, once selected; and*
- *examine options used in other jurisdictions both to improve collection and to reduce the risk and cost of defaulted student loans.*

Current Status

Delays occurred in making arrangements with private collection agencies so that the transfer of defaulted claims did not begin until January 1999. All claims received by the Ministry by March 31, 1999 had been transferred to private collection agencies and claims were being transferred promptly thereafter. Since October 31, 1997, the value of claims processed by the Ministry had increased by approximately 250% from \$99 million (45,000 claims) to \$353 million (94,000 claims) as of March 31, 1999.

The Ministry introduced several new measures to improve collections and reduce default claims including:

- performing credit checks on applicants;
- reporting delinquent payers to credit bureaus;
- publicly reporting loan default rates for each postsecondary institution and requiring them to reimburse the Ministry for the cost of loan defaults in excess of a set threshold (for the 1999/00 academic year, the threshold is set at 10 percentage points above the provincial average); and
- through an arrangement with Revenue Canada, seizing income tax refunds for payers in default commencing with the 1998 tax year.

In addition, changes to federal bankruptcy legislation, enacted in 1998, prohibit borrowers from discharging their student loans through bankruptcy until 10 years after the completion of studies.

The Ministry's efforts to negotiate with lenders an income contingent loan repayment program for the fall of 1998 were not successful. Hence no formal agreements with lenders were established and no arrangements were made with lenders to share the risk and cost of defaulting student loans. New negotiations with lenders are expected to resume shortly under the harmonized federal and provincial student loans programs being introduced in the 2000/01 academic year.

PERFORMANCE REPORTING

Recommendation

To improve accountability, the Ministry should develop and regularly report performance measures to evaluate the efficiency and effectiveness of the Ontario Student Assistance Program and achievement of business plans.

To facilitate policy and decision making, information on how student assistance programs interrelate with other government policies and compare to student support levels provided by other jurisdictions should also be reported.

Current Status

The Ministry introduced several performance measures as part of its annual business plan for postsecondary education, covering accessibility, graduation rates and default rates for student types, educational institutions and individual programs of study. Plans for harmonizing the federal and provincial student assistance programs will in future allow the Ministry to compare these performance measures, as well as new measures on student indebtedness and ability to pay, with those of other jurisdictions.

Since 1997, the Ministry annually reports the Ontario Student Loans default rates for each postsecondary institution in Ontario. For 1996, 1997 and 1998, the Ministry calculated the overall loan default rate as 18.6%, 23.5% and 22.1% respectively. In 1997/98 the Ministry set a target to reduce the overall default rate to 10% over the next five years.

The Ministry also monitors a limited number of efficiency indicators for processing applications and customer service.

Ministry of Environment and Energy: Conservation and Prevention Division — 3.07

BACKGROUND

In 1997 we assessed whether satisfactory procedures were in place to measure and report on the performance of the Conservation and Prevention Division in contributing to the effectiveness of the Ministry in protecting the environment and human health.

The Division was responsible for:

- promoting the reduction of waste and pollutants and the conservation of energy and water;
- programs facilitating environmental issues regarding land use and economic development issues; and
- the provision of funding to municipalities for water and sewage projects.

Since our review in 1997, the Ministry has been reorganized. The responsibilities of the former Conservation and Prevention Division are now shared among three Divisions.

CURRENT STATUS OF RECOMMENDATIONS

Our recommendations concerning the following were substantially implemented:

- Effectiveness of Waste Reduction (with regard to reporting and measuring effectiveness); and

-
- Funding for Water and Sewage Projects.

With respect to other recommendations, the status of the action taken was as follows:

EFFECTIVENESS OF WASTE REDUCTION

Recommendation

To be more effective in meeting the provincial waste reduction goal, the Ministry should incorporate the provincial goal in the Waste Reduction Branch business plan to guide all waste reduction activities.

Current Status

The Ministry indicated that it was committed to the goal of achieving a 50% waste reduction. The inclusion of the goal was being finalized in the Waste Management Policy Branch business plan at the time of our follow-up.

RECYCLING (BLUE BOX) PROGRAM

Recommendation

To ensure that the Blue Box Program is sustainable, the Ministry should work with municipalities to reduce the costs of collecting and processing recycled materials.

Current Status

The Ministry has been negotiating with industries benefiting from the Blue Box Program to obtain their financial support in reducing the costs to municipalities. In addition, the Ministry has proposed the establishment of an organization consisting of participating industries, the municipal sector and non-government organizations, with the intention of developing options to reduce the cost of their recycling programs and fund initiatives to increase waste diversion.

COSTS AND BENEFITS OF RECYCLING

Recommendation

The Ministry should work with municipalities to adopt the use of full costing for assessing the most cost-effective method for the disposal of waste in their communities.

Current Status

The Ministry indicated that recent municipal amalgamations and reallocations of responsibility under the "Who Does What" initiative have created an environment more conducive to full cost accounting methods. The Ministry has been working with several interested municipalities to encourage the use of full cost accounting for assessing the costs of their waste management systems and for improving the efficiency and effectiveness of those systems.

COMPLIANCE WITH LEGISLATION

Recommendation

The Ministry should expedite its review of the legislation regarding refillable soft drink containers and at the same time work with the industry to develop a practical solution to address the concerns of the municipalities.

Current Status

In 1997 we found that the Ministry was not enforcing regulation 340 of the *Environmental Protection Act* which requires 30% of soft drinks to be sold in reusable containers. At the time of our initial review, less than 2% of soft drinks were sold in refillable containers.

After consulting with the public and stakeholders on alternative approaches, the Ministry indicated that future decisions on this issue will be linked to other initiatives involving related ministry plans, stakeholder input and the long-term sustainability of the Blue Box Program.

MEASURING AND REPORTING ON THE EFFECTIVENESS OF ENVIRONMENTAL ASSESSMENT

Recommendation

For the environmental process to be more effective, the Ministry should establish indicators to measure and report on the effectiveness of the process and monitor compliance with the terms and conditions of the approved projects.

Current Status

The Ministry has developed and implemented an electronic environmental-assessment information management system to record environmental assessment submissions and track outstanding terms and conditions of approval as part of a compliance monitoring process. The Ministry is in the process of integrating the Environment Assessment Branch and the Approval Branch into one branch. It has drafted a number of performance measures to evaluate the effectiveness of the environmental assessment process. The development of procedures for audit compliance and reporting on performance has been identified as a branch priority.

Ministry of Finance: Employer Health Tax — 3.08

BACKGROUND

At the time of our audit in 1996, the *Employer Health Tax Act* required all employers with a permanent establishment in Ontario to remit employer health tax (EHT) on total Ontario remuneration paid to employees. The rates of tax varied from .98% on total remuneration less than \$200,000 up to 1.95% for remuneration in excess of \$400,000 and was payable in monthly or quarterly instalments or on an annual basis depending on the total amount of tax payable.

As at September 1996, the EHT taxroll consisted of approximately 396,000 private and public sector employers and 54,000 self-employed taxpayers. Commencing January 1, 1997, small private sector employers and all self-employed individuals were exempted from paying EHT over a three-year phase-in period. As a result, by January 1, 1999, employers with annual payrolls under \$400,000 and self-employed individuals were no longer required to pay EHT. Public sector employers were not affected by the changes.

For the 1996/97 fiscal year, the province collected EHT revenues totalling \$2.8 billion.

Our audit objective was to assess whether reasonable procedures were in place to ensure that the Ministry collected the proper amount of EHT in a timely manner and in accordance with statutory requirements.

CURRENT STATUS OF RECOMMENDATIONS

We are pleased to note that all of our recommendations have been substantially implemented by the Ministry. These recommendations related to the following matters:

- Audit Selection;
- Desk Audits;
- Taxroll Administration – Self-Employed Individuals;
- Impact of Legislative Changes; and
- Reporting of Results.

Ministry of Health: Mental Health Program—Community Based Services Activity—3.09

BACKGROUND

The goal of the Community Based Services Activity is to develop a system that will support people with mental illness in living fulfilling lives in the community. The Activity funds Community Mental Health Programs, including community-based mental health services, children's mental health programs, residential Homes for Special Care and the community psychiatric payment program.

In 1997 we assessed whether the Ministry had adequate procedures in place:

- to measure and report on the effectiveness of the Activity; and
- to ensure compliance with legislation and that policies and procedures for the approval, processing and payment of transfer payments were adequate and were being followed in an economic and efficient manner.

CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas of our 1997 report have been substantially implemented:

- adherence to ministry Guidelines and Process Requirements for operating plans;
- Allocation of Funds under the Community Psychiatric Payment Program;
- Monitoring of the Community Psychiatric Payment Program;
- Homes For Special Care – Processing of Payments and Recoveries; and
- Homes For Special Care – Respite Care Grants.

The current status of the remaining recommendations is as follows:

MENTAL HEALTH REFORM

Recommendations

To enable any needed corrective action to be taken on a timely basis, the Ministry should periodically evaluate its progress in meeting the mental health reform targets.

To enable it to better plan the future direction of mental health care, the Ministry should develop and compare the costs and outcomes of community-based care with those for institutional care for various levels of services/care.

Current Status

The Ministry informed us that the research projects funded through the multi-year Community Mental Health Evaluation Initiative are in the early stages of implementation. Research projects that have been funded will provide the Ministry with vital information regarding cost benefits and outcomes related to core community mental health functions. Data from these projects to advance the refinement of mental health reform targets is an essential prerequisite.

The Mental Health Minimum Data Set is intended to enable ministry staff to analyze and compare the costs of community care and institutional care. The Ministry's Senior Management Committee has deferred the development and implementation of the Mental Health Minimum Data Set project at this time due to other priorities to ensure Year 2000 compliance.

PERFORMANCE MONITORING

Recommendation

To ensure that agreed upon community-based services are being provided and that funding is reasonable and consistent, the Ministry should:

- *define acceptable levels of care; and*
- *establish performance benchmarks and outcome measures, and monitor programs against them.*

Current Status

Levels of care have been included in the Ministry's March 1999 publication *Making It Happen: Operational Framework for the Delivery of Mental Health Services and Supports*. Once the Operational Framework is formally released, regional and local planning processes will be able to align and rationalize community mental health services based on the directions contained therein.

Performance benchmarks/targets and outcomes will be based on multi-year baseline data captured by the Mental Health Minimum Data Set.

MANAGEMENT INFORMATION SYSTEMS

Recommendation

To facilitate the monitoring of mental health reform and enable management to better evaluate the effectiveness of community-based mental health services, the Ministry should accelerate the development and implementation of an appropriate management information system.

Current Status

In partnership with community players, the Mental Health Minimum Data Set will collect the data required to support critical management information system databases. A Technology Survey was also completed and will enable the Ministry to assess and evaluate direct electronic transfer alternatives. Community Mental Health Programs Budget System, Financial Logs and Sessional Fees System have all been implemented. These will be further refined following the completion of the Year 2000 project.

HOMES FOR SPECIAL CARE – QUALITY OF CARE

Recommendation

To ensure that Homes for Special Care provide appropriate and consistent resident care across the province, the Ministry should mandate compliance with the minimum standards of care as a condition of licence renewal.

Current Status

The Ministry informed us that it is currently developing a comprehensive housing policy for mental health that will set out standards and monitoring mechanisms for all supportive housing, including the Homes for Special Care program. These standards and monitoring mechanisms will help to ensure a consistent approach to the programs being funded by the Ministry. The policy may have legislative implications for the *Homes for Special Care Act*. Consultation is planned for the fall of 1999.

Ministry of Health: Public Health Activity — 3.10

BACKGROUND

The programs under the Public Health Activity are designed to maintain population health through health protection, health promotion and disease prevention. The Ministry's Public Health Branch, under the direction of the Chief Medical Officer of Health, is responsible for administering the Activity.

The objectives of our audit of the Public Health Activity were to assess whether the Ministry had adequate policies and procedures in place:

- to ensure that public health programs were funded and delivered with due regard for economy and efficiency and in accordance with applicable legislation; and
- to measure and report on the effectiveness of provincially-funded public health programs.

CURRENT STATUS OF RECOMMENDATIONS

Recommendations relating to the following areas of our 1997 report have been substantially implemented:

- Vaccine Preventable Diseases Program - Immunization of Children;
- Financial Controls Over Vaccine Expenditures;
- Vaccine Purchasing;
- providing suggested changes to federal immigration legislation;
- Sexually Transmitted Diseases;
- Food Safety Program; and
- Rabies Control.

The current status of the remaining recommendations is as follows:

ACCOUNTABILITY TO THE LEGISLATIVE ASSEMBLY

Recommendation

To improve the accountability of the Public Health Activity, the Ministry should consider periodically reporting to the Legislative Assembly on the extent to which:

- *public health programs delivered by boards of health have met provincial standards; and*
- *provincial public health objectives have been achieved.*

Current Status

All boards of health completed and submitted the Mandatory Program Indicator Questionnaire for the January to June 1998 reporting period. The completed questionnaires were analyzed by the Public Health Branch and results distributed to the boards.

A Compliance Assessment Steering Committee is developing a system for assessing compliance with mandatory programs. Boards of health will be required to provide a full year of data for 1998, which will be analyzed by the Branch and results distributed to the boards.

We were advised that the Ministry is considering including these results in its annual reporting to the Legislature on business plans and performance measurement.

FUNDING ARRANGEMENTS

Recommendation

To ensure that funding for all mandatory public health programs is allocated equitably, the Ministry should expand the use of indicators of service costs and of the relative health needs of communities.

Current Status

As a result of new cost-sharing arrangements, the Public Health Branch indicated that it would be reviewing the existing global needs-based formula that adjusts for population factors such as geography, income and education.

VACCINE PREVENTABLE DISEASES PROGRAM – IMMUNIZATION OF ADULTS

Recommendation

To contribute to its goal of protecting public health and preventing disease, the Ministry should:

- *establish coverage targets for influenza, pneumococcal, tetanus and diphtheria vaccines; and*
- *develop systems to monitor attainment of these targets and take appropriate corrective action as necessary.*

Current Status

Coverage targets for influenza and pneumococcal vaccines are now included in the *Mandatory Health Program and Services Guidelines*. Coverage was assessed in April 1998. For diphtheria and tetanus, the objective is to maintain a zero incidence of disease. Accordingly, occurrence is measured rather than immunization coverage.

The results of the OHIP billing numbers pilot project indicated that a significant proportion of vaccines administered was not recorded on the system. The ultimate solution may involve information sharing between Provider Services Branch and Public Health, as is done in Manitoba. Options are being explored, bearing in mind Year 2000 constraints.

IMMUNIZATION INFORMATION SYSTEM

Recommendation

Immunization is a major contributing factor to the Ministry's goal of protecting public health and preventing disease. Therefore, to better track the immunization of children and adults, the Ministry should assess the feasibility of modifying existing systems or developing appropriate ones to capture the necessary information.

Current Status

A review of the Public Health Activity's system development needs has been carried out, and a project manager has been assigned. However, no system development activities are planned due to Year 2000 priorities.

We were advised that the exploration of public health information systems in other jurisdictions is underway, in particular, the system used by the British Columbia Ministry of Health.

PROVINCIAL IMMUNIZATION CAMPAIGNS

Recommendation

To assist in planning future immunization campaigns and to identify opportunities for increased operational efficiency, the Ministry should obtain from a sample of boards explanations of why their costs were significantly higher or lower than the provincial average for delivering the recent hepatitis B and measles campaigns.

Current Status

This recommendation will be considered before future immunization campaigns are planned. Since funding for the delivery of these programs is being transferred to municipalities, the Ministry feels that its ability to influence local operational efficiencies in future campaigns will be based on more indirect methods.

TUBERCULOSIS CONTROL – CONTACT TRACING

Recommendation

To help monitor the effectiveness of the Tuberculosis Control Program, the Public Health Branch should obtain additional information on the results of tuberculosis contact tracing by boards of health.

Current Status

A review of the Public Health Activity's system development needs has been carried out, and a project manager has been assigned. However, no system development activities are planned due to Year 2000 priorities.

We were advised that the exploration of public health information systems in other jurisdictions is underway, in particular, the system used by the British Columbia Ministry of Health.

TUBERCULOSIS CONTROL – SCREENING HIGH-RISK GROUPS

Recommendation

To improve the effectiveness of mandatory tuberculosis screening programs, the Ministry should:

- *determine whether there is a sufficient legal basis to support the mandatory screening of high-risk groups; and*
- *encourage and monitor the prescribing of appropriate drug therapy.*

Current Status

The revised *Mandatory Health Programs and Services Guidelines* include the screening of high-risk groups and medical assessment of all skin-positive individuals. The Public Health Branch has studied and recommended changes to the *Health Protection and Promotion Act* regarding these issues. We were advised that the changes will be considered when the next opportunity to make changes to the Act arises.

TUBERCULOSIS CONTROL – MEDICAL SURVEILLANCE UNDERTAKINGS

Recommendation

To enhance the effectiveness of the medical surveillance of individuals with inactive tuberculosis, the Ministry should improve its ability to track individuals under surveillance.

Current Status

The federal government has issued a discussion document that addresses a number of issues related to tuberculosis control and immigration. The Ministry has issued a formal response to the document. Many of the changes address the recommendations in our 1997 report. There is ongoing activity in providing input to Citizenship and Immigration Canada about current gaps in the information provided to public health.

TOBACCO CONTROL ACT

Recommendation

To increase compliance with the Tobacco Control Act, the Ministry should evaluate the use of additional enforcement measures and should develop an overall communication strategy to publicize enforcement efforts.

Current Status

An Expert Panel has reviewed the Ontario Tobacco Strategy including implementation of the *Tobacco Control Act*. The Panel has issued a report and recommendations, some of which deal with enforcement of legislation. The report has been submitted to the Minister.

The *Mandatory Health Programs and Guidelines* require public health units to:

-
- perform annual compliance checks on a percentage of tobacco vendors; and
 - ensure the ongoing use of media to increase awareness of the purpose of the *Tobacco Control Act* and to facilitate awareness of the rationale and scope of enforcement efforts.

We were advised that boards of health will be required to complete a questionnaire in June 1999 that will provide a full year of data on compliance with the Act. The completed questionnaires will be analyzed and the results distributed to boards of health.

4.00

Management Board Secretariat: Employee Health Care Benefits — 3.11

BACKGROUND

The Ontario government provides employee health care benefits for its employees and their eligible dependants. These benefits fall under four main categories: supplementary health which covers expenses for such items as drugs and vision care; dental care; long-term disability protection; and group life insurance. Similar to most employers who manage benefit programs for a large number of employees, the Ontario government is self-insured and uses insurance carriers to process and adjudicate employee benefit claims. This means that the government reimburses the insurance carriers for the actual benefit claims paid to employees and pays an administrative fee for their processing and adjudication services.

In 1997 our audit objective was to assess whether Management Board Secretariat (MBS) had adequate systems and procedures in place to manage employee benefit plans with due regard for economy and in accordance with the terms of the plans.

CURRENT STATUS OF RECOMMENDATIONS

MBS has substantially implemented our recommendations relating to the following areas:

- Cost-containment Strategies;
- Communication with Employees;
- Management of Long-Term Disability;
- Monitoring Carrier Claims Processing Activities; and
- Measuring and Reporting Results.

The current status of the remaining recommendation is as follows:

POSITIVE ENROLMENT

Recommendation

To help ensure that supplementary health and dental claims are only paid for eligible recipients, the Management Board Secretariat should implement positive enrolment, whereby employees are periodically required to provide detailed information regarding spousal insurance coverage and the eligibility of family members.

Current Status

The Ontario Public Service (OPS) is currently implementing a new corporate human resources information system named the Workforce Information Network (WIN). Positive enrolment has been confirmed as an element of this system; it has been identified as part of the second phase of implementation, which is tentatively scheduled for the early part of the year 2000.

Once all OPS ministries have WIN in place, employees will be required to identify their eligible dependants. This information will be provided to the insurance carriers as the basis upon which to determine dependant claims eligibility. MBS is reviewing the mechanism that would allow OPS employees to update this information when any changes occur and confirm the information on dependants on an annual basis.

Ontario Housing Corporation and Metropolitan Toronto Housing Authority: Capital Asset Management — 3.12

BACKGROUND

The Ontario Housing Corporation (OHC) is an agency of the Ministry of Municipal Affairs and Housing and is funded through rental income and subsidies from the provincial and federal governments. The OHC owns approximately 84,000 rent-geared-to-income housing units that are managed by 54 local housing authorities (LHAs), including the Metropolitan Toronto Housing Authority (MTHA). These units provide housing for about 250,000 low-income households in 310 communities.

In 1997 our audit objective included assessing whether OHC and MTHA had in place the systems and procedures to ensure that their rental properties were repaired and maintained economically, efficiently and effectively. We recommended actions that OHC and MTHA could take to:

- better assess building conditions and estimate the costs of needed repairs in order to effectively establish priorities for capital repairs;
- achieve further savings of several million dollars in utility and maintenance costs; and

-
- ensure compliance with legislation and corporate policies governing health and safety matters such as the *Ontario Fire Code* and asbestos management.

CURRENT STATUS OF RECOMMENDATIONS

Our recommendations for strengthening the capital planning and budgeting process have been substantially implemented. Our other recommendations were still in the process of implementation although good progress had been made. Significant actions taken and planned by OHC and MTHA on our recommendations are as follows:

MANAGING UTILITY COSTS AND ENERGY USE

Recommendation

To reduce costs and encourage energy conservation, Ontario Housing Corporation should:

- *ensure that best practices in energy conservation initiatives already adopted by some local housing authorities are periodically summarized and shared among the rest;*
- *reinstate periodic comparisons of local housing authority energy consumption costs to identify buildings with opportunities for savings; and*
- *examine the feasibility of expanding user payment for utilities related to individually metered units.*

Current Status

The OHC approved an energy and water conservation strategy in December 1997. Independent energy and water audits were completed in 1998 on a sample of 88 buildings and the results were independently analyzed in a report issued in December 1998. The independent consultant concluded that, while the energy consumption of OHC buildings is comparable to that of private sector buildings, implementing all recommended energy and water conservation measures would save about \$13.7 million annually and require an investment of \$85 million, for an average payback of 6.2 years. The consultant recommended that measures with a payback of less than five years should be implemented first at a capital cost of \$5.5 million for OHC's entire building portfolio.

The OHC implemented some measures identified by LHAs in 1998 when savings had been achieved on other high priority projects and had allocated \$2 million in their 1999 capital budget to implementing energy-saving measures with a payback of less than five years. Energy conservation measures are also undertaken as part of larger repair or replacement projects.

Units with individually metered utilities where tenants pay the cost reflect lower consumption rates throughout the OHC's building portfolio, including MTHA. Few of the high-rise units are individually metered. Any significant reduction in energy consumption in residential units requires the active participation of residents in energy conservation or user pay programs. Both options were still being reviewed.

Recommendation - MTHA

To help meet performance targets for reducing utility costs and energy use, Metropolitan Toronto Housing Authority should examine the results of initiatives taken by other local housing authorities that have achieved substantial savings in utility costs and implement those having the greatest potential for payback.

Current Status

MTHA's Energy Management Program has included a survey and comparison of energy consumption patterns to that of buildings owned by several other LHAs and to those of private and non-profit owners in Toronto. On a per occupant basis, MTHA's building energy use compared favourably. Energy use for all buildings had been benchmarked over the last three years and monitoring against the benchmarks had yielded savings. However, the results and recommendations of the energy and water audits conducted for OHC had not yet been shared with MTHA and so the potential for further savings by MTHA had not yet been assessed.

MAINTENANCE MANAGEMENT

Recommendation

To better ensure that maintenance services are delivered efficiently and effectively, Ontario Housing Corporation should:

- *resume its benchmarking project and make use of existing local housing authority efforts to develop standards and reduce the costs for various maintenance activities;*
- *collect and share local housing authority cost-saving initiatives among local housing authorities; and*
- *require local housing authorities to use periodic expert inspections of buildings to assess the quality of maintenance services and to report the results and any recommended actions to their boards for follow-up.*

Current Status

In March 1999 the board approved a model for benchmarking the performance of LHAs beginning with the year 2000 business plans for each LHA. The model includes the measurement and benchmarking of four key indicators: manageable costs (including maintenance), vacancy rate, unit turnaround time and arrears. LHAs will also be required to perform self assessments of a number of key business processes including adherence to maintenance service standards. In 1998 the OHC also began collecting information on best practices followed by LHAs and communicating them at the rate of one topic per month. The one on maintenance practices was issued in March 1999.

Independent building condition assessments conducted in 1997 for a sample of the housing portfolio provided some assessment information on the quality of maintenance in those buildings assessed.

Recommendations - MTHA

To help meet cost reduction targets for maintenance services, Metropolitan Toronto Housing Authority should develop strategies for increasing staff productivity and, in particular, for reducing time lost due to sick days taken.

To better manage maintenance services, Metropolitan Toronto Housing Authority should establish service delivery, reporting and performance evaluation expectations for maintenance staff that are similar to those established for the private management companies it has under contract. MTHA should also examine maintenance management systems established by other large local housing authorities for their applicability to its requirements.

Current Status

An Attendance Management Program had been implemented at MTHA that for 1998 resulted in a 20% reduction in sick days taken by maintenance staff from 1997. Paid sick days per employee declined to 9.37 in 1998. Lost time due to accidents also decreased by 45% to 3.5 days per employee in 1998 over 1997. MTHA had set goals to reduce time lost due to illness and accidents by a further 20% and 25% respectively in 1999.

MTHA had also introduced measures to assess and track maintenance quality. For example, “% of service call-outs for emergency capital repairs” was being tracked against a target and the prior year as an indicator of the effectiveness of their preventative maintenance program.

MTHA had recently put additional communities under private management. Service expectations and requirements for direct and private management of properties were still being reviewed and compared for best practices with the intention of bringing the two into closer alignment. Additionally, other organizations had been surveyed for best practices and further opportunities for improving maintenance efficiency had been identified but not yet acted upon.

ASBESTOS MANAGEMENT

Recommendation

The Ontario Housing Corporation should:

- *remind local housing authorities of their responsibility to manage asbestos in accordance with legislation and corporate policies; and*
- *ensure that the status of asbestos surveys and actions taken to rectify noted deficiencies is reported periodically to each local housing authority board and that these boards in turn provide assurance to the board of Ontario Housing Corporation that their responsibilities have been met.*

Current Status

Each LHA board had been instructed to confirm to OHC’s board that it has met its responsibilities for asbestos handling, including reporting to its own board. As at April 1999, only 11 LHAs had reported. The General Manager planned to follow up with LHAs and report to the board on LHA conformance later on in 1999.

Recommendation - MTHA

To ensure that high-priority projects such as asbestos abatement are completed expeditiously in order to minimize risk and exposure to residents, staff and the Metropolitan Toronto Housing Authority, the status of all projects involving health, safety or legislative compliance should be closely monitored and regularly reported to the board.

Current Status

MTHA had established an Asbestos Management Program had been established and taken a number of measures. As a result of those measures MTHA reported that it was in full compliance with applicable legislation and that all required inspections had been conducted in 1998. A progress report was provided to the MTHA board on April 21, 1999.

FIRE CODE COMPLIANCE

Recommendation

To ensure that local housing authorities are complying with the Ontario Fire Code, Ontario Housing Corporation should require all local housing authorities to conduct independent inspections of their buildings for compliance with corporate policy and Ontario Fire Code requirements at least annually and to report the results of these inspections to their respective boards for any necessary action.

Current Status

The board had not been updated on the status of LHAs' efforts to comply with *Ontario Fire Code* retrofit and other requirements since March 20, 1998. At that time LHAs, other than MTHA, had reported that 95% of the retrofit work had been completed. Wherever possible, local fire departments had been asked to inspect their buildings and to issue letters of approval that they comply. About half of the buildings had received such approval as of December 31, 1997 and a further 34% did not require any further work as a result of the inspection. Only 7% of buildings inspected required further work. Inspections had not yet been done for 18% of the buildings.

All LHAs, including MTHA, were in the process of retrofitting their buildings to comply with new *Ontario Fire Code* requirements for fire alarm audibility issued in June 1998 and with related corporate guidelines issued in January 1999.

Recommendation - MTHA

To better ensure that Ontario Fire Code requirements are met and that any deficiencies are promptly identified and rectified, Metropolitan Toronto Housing Authority should periodically conduct independent inspections of all properties for compliance with Ontario Fire Code requirements, take any necessary corrective actions and report the results to its board.

Current Status

MTHA had retained consultants to identify any remaining issues relating to *Ontario Fire Code* retrofit compliance of buildings in MTHA's high-rise portfolio, to oversee any additional work required and to certify compliance. As of April 1999, MTHA's board was informed that letters

of compliance had been obtained for all 90 high-rise buildings and 163 of 174 low-rise buildings. The remaining 11 properties were in one community and were expected to be in full compliance by June 1999.

Ministry of Transportation: Commercial Vehicle Safety and Regulation — 3.13

4.00

BACKGROUND

The Ministry of Transportation's Safety and Regulation Division is responsible for the coordination of all road safety activities for the province. The Division oversees the inter-city bus and truck industries, administers the licensing of for-hire transport, and enforces legislation with respect to driver and vehicle safety, vehicle weight and size, and the movement of goods.

In 1997 we assessed whether the Division had adequate procedures in place to measure and report on the program's effectiveness in ensuring commercial vehicle safety and to ensure compliance with legislation and ministry policies. We also assessed the adequacy of procedures to ensure that resources were managed with due regard for economy and efficiency.

We found that the Ministry had implemented a number of legislative changes and initiated several projects designed to make provincial highways safer. However, further action was necessary to enhance road safety, to manage resources more efficiently, and to establish better procedures to measure and report on the effectiveness of its many new initiatives.

CURRENT STATUS OF RECOMMENDATIONS

The Ministry has taken several significant actions to enhance road safety including the development and implementation of a number of new policies and procedures. Consequently, recommendations relating to the following matters have been fully or substantially implemented:

- Planning and Policy Initiatives;
- Effectiveness Measurement Reporting;
- Safety Education and Awareness;
- Roadside Inspections;
- Selection of Vehicles for Roadside Inspections;
- Commercial Vehicle Weight Inspections;
- Commercial Carrier Facility Audits;
- Warning Letter Interventions;
- Carrier Interviews and Audits;
- Carrier Sanctions;

-
- Enforcement Process; and
 - Program Administration.

With respect to our other recommendations, the status of action taken is as follows:

BUS SAFETY INSPECTIONS

Recommendation

To ensure an efficient and effective Bus Safety Inspection Program, the Ministry should:

- *review the current approaches used by the regional and area offices to determine the appropriate combination of roadside inspections and visits to premises; and*
- *upon determination of the appropriate inspection approach, develop standardized policies and procedures to assist area offices in implementing a comprehensive and consistent bus inspection process.*

Current Status

The Ministry is in the process of developing standardized bus inspection procedures and bus operators will remain a high priority for audits at the operator's facility. All enforcement officers have now received motor coach safety inspection training. Since a proper motor coach inspection requires that the vehicle be up on ramps, additional portable ramps will be purchased in 1999. This will allow for more roadside bus inspections in all regions of the province.

COMMERCIAL VEHICLE OPERATOR'S REGISTRATION

Recommendation

To help ensure the integrity of the Commercial Vehicle Operator's Registration (CVOR) system and database, the Ministry should:

- *develop and document policies and procedures to ensure the accuracy and completeness of the information provided on applications for CVOR certificates;*
- *improve controls over the storage, retention and retrieval of microfiche records;*
- *ensure that carrier information on the system database is valid and up to date; and*
- *implement procedures to ensure that all carrier convictions are promptly and accurately recorded on the CVOR system.*

Current Status

The Ministry has implemented or is in the process of implementing procedures to ensure the integrity of the CVOR system. Beginning in the fall of 1997, the Ministry required operators to report any changes in fleet size or kilometres traveled. The Ministry is moving toward implementing a CVOR renewal process to ensure that all information on the system is reasonably up to date, accurate and complete. In May 1999, the Ministry tested its microfiche retrieval system and found it to be reliable. The Ministry has also implemented procedures that require enforcement officers to verify that all carrier convictions are properly recorded on the CVOR system.

COMMERCIAL CARRIER LICENSING

Recommendation

To help ensure that only appropriately qualified applicants are licensed, the Ministry should develop policies and procedures for assessing factors such as safety fitness as required under the Truck Transportation Act or any replacement legislation.

Current Status

The Ministry had developed formal policies to be reflected in proposed legislative changes including the repeal of the *Truck Transportation Act*. However, the proposed changes were not included in the legislative amendments. Consequently, the requirements of the Act are still in effect and all applicants are required to complete a safety fitness test that establishes the carrier's knowledge of safety requirements in the province. Along with renewal of the CVOR, the Ministry intends to introduce an enhanced safety fitness test that will be completed by all applicants. In addition, with the implementation of national safety rating standards, applicants from other jurisdictions will be required to submit the safety ratings assigned by their previous jurisdictions.

LICENSING AND INSPECTION

Recommendation

To ensure adequate monitoring of Motor Vehicle Inspection Stations (MVIS), the Ministry should:

- *implement a risk-based approach for selecting MVIS for inspections;*
- *regularly generate information designed to highlight areas of concern for investigation and follow-up;*
- *require increased monitoring and more frequent inspections of those carriers licensed to inspect their own vehicles; and*
- *establish uniform criteria for determining when an inspection station's licence or a mechanic's registration should be revoked.*

Current Status

The Ministry has manually identified motor vehicle inspection stations that have issued a disproportionate number of certificates and stickers per mechanic and has forwarded this list to the relevant regional enforcement group for follow-up. The Ministry has also identified, for follow-up action, MVIS licensed commercial carriers with higher than average out-of-service rates. The Ministry intends to periodically identify such stations and carriers for follow-up. The Ministry has planned changes to the MVIS system to automate this identification process. The Ministry has also developed and is currently analyzing criteria for determining when to revoke a Motor Vehicle Inspection Station's or mechanic's licence.

COMMERCIAL VEHICLE CERTIFICATION

Recommendation

To increase assurance that safety stickers are affixed only to properly inspected vehicles and to help prevent the misuse of safety stickers, the Ministry should:

- *improve controls over the recording of both stickers issued and stickers reported lost or stolen; and*
- *provide enforcement staff with a convenient method of determining the validity of safety stickers and certificates.*

Current Status

The Ministry expects to complete a comprehensive review of the MVIS program by the end of 1999. The review will include enhancements to the MVIS system to provide greater access to system data for field staff and ensure that high-risk stations are identified. The review will also assess alternative means of program control and administration and provide enforcement staff with strengthened MVIS licence revocation criteria.

CHAPTER FIVE

Public Accounts of the Province

5.00 INTRODUCTION

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year. However, the Public Accounts are normally tabled each autumn after the end of the fiscal year to which they pertain.

The financial statements of the province, which are included in the Public Accounts, are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts which are based on estimates and judgment. The Government is also responsible for ensuring that an established system of control with supporting procedures is maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the financial statements of the province. This opinion is intended to provide reasonable assurance that the financial statements are free of material misstatement. The financial statements, along with the Provincial Auditor's opinion on them, are provided in a separate volume of the Public Accounts. In addition to the financial statements, the Public Accounts include three supplementary volumes.

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The Consolidated Revenue Fund schedules reflect the financial activities of the government's ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards and commissions which are part of the government's reporting entity and other miscellaneous financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

The Provincial Auditor reviews the information in these three supplementary volumes for consistency with information presented in the financial statements.

THE PROVINCE'S 1998/99 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's financial statements as reported in the Public Accounts. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the fiscal year ended March 31, 1999 is clear of any qualifications or reservations and reads as follows:

To the Legislative Assembly of the Province of Ontario

I have audited the statement of financial position of the Province of Ontario as at March 31, 1999 and the statements of revenue, expenditure and accumulated deficit and of cash flows for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by section 12 of the Audit Act, I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.

[signed]

Toronto, Ontario
August 9, 1999

Erik Peters, FCA
Provincial Auditor

PROVINCE OF ONTARIO ANNUAL REPORT

Since 1996, the Province of Ontario has published an annual report together with the Public Accounts. These annual reports serve to enhance the fiscal accountability of the government to both the Legislative Assembly and the public.

ACCOUNTING PRINCIPLES RECOMMENDED FOR GOVERNMENTS

The financial statements of the province include the Consolidated Revenue Fund and organizations owned or controlled by the government, and have been prepared in accordance with accounting principles recommended for governments by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the *CICA Handbook* for private and public sector corporations in Canada. PSAB recommendations are contained in the CICA's *Public Sector Accounting Handbook*. They represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum requirements for financial statement accounting and reporting practices for governments.

In applying PSAB standards, the province's accounting policies are similar to those promulgated in the *CICA Handbook* for the private sector with the following two key exceptions:

- Crown agencies that are self-sufficient and sell goods or services to individuals and organizations outside of the government as their principal activity are classified as government business enterprises. Enterprises are accounted for on a modified equity basis as opposed to a line-by-line consolidation as would be the case in the private sector. Examples of such agencies include the Ontario Lottery Corporation and the Liquor Control Board of Ontario. Agencies defined as government service organizations, which are those financially dependent on the government, are fully consolidated. Regardless of the method of inclusion, the net income or deficit of both of these types of agencies is included in the determination of the province's operating results for the year.
- Investments in capital assets by government ministries and government service organizations are recorded as expenditures in the year incurred rather than as assets. They are not amortized to operations over their estimated useful lives as is done in the private sector.

Because of their unique nature, two of the largest organizations of the province, the Workplace Safety & Insurance Board and Ontario Hydro, warrant special mention.

Under the *Workers' Compensation Act*, funding of the Workplace Safety & Insurance Board's liabilities, including its large unfunded workers' benefits liability, is a future financial obligation of private-sector employers and not of the province. The Board has therefore been classified as a trust fund and details are provided in a note to the financial statements.

By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets are neither intended nor available for distribution to the province. Accordingly, Ontario Hydro is not consolidated in the financial statements. However, the province's guarantee of Ontario Hydro's debt, and certain aspects of Ontario Hydro's operations are disclosed in the notes to the financial statements. On April 1, 1999, Ontario Hydro was restructured into five successor entities. Further discussion of this restructuring and its implications for future financial statements follows later in this chapter.

NEW CICA STANDARDS

The CICA attempts to foster improved financial and performance information by continuously improving its existing recommendations and by developing new recommendations to deal with emerging accounting and auditing issues. There are two new standards that warrant discussion.

CASH FLOW STATEMENT

In June of 1998, the CICA's Accounting Standards Board issued a new standard on cash flow statements. The standard calls for cash flows to be classified by operating, investing and financing activities, sets out the components which may be included among cash and cash equivalents, and excludes from the statement investing and financing transactions that do not require the use of cash or cash equivalents. Criteria are also provided for reporting cash flows on a net basis. The Ministry of Finance has implemented the recommendations of this standard in this year's financial statements.

TANGIBLE CAPITAL ASSETS

Currently, Ontario ministries and government service organizations expense the full cost of capital assets in the year of purchase or construction. This differs from the practice followed in the private sector where capital assets are recorded on the balance sheet and amortized to operations over their estimated useful lives. In June 1997, PSAB approved a new set of recommendations setting out rules for the recognition, measurement, amortization and presentation of government capital assets. Among other things, the standard calls for a new statement of tangible capital assets to be included as part of the province's financial statements.

The Ministry of Finance is actively considering the future implementation of these recommendations as part of the new integrated financial information system. However, this project is not expected to be completed in the near future. There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. However, we believe that the resulting enhanced financial information would be valuable for both decision-makers and stakeholders.

We continue to look forward to consultation on this matter to assist in ensuring that existence, ownership, auditability and valuation issues regarding these assets are resolved, that value for money is obtained, and that cost-effective business practices, systems and procedures are in place to manage, control and account for these assets.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's financial statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we noted a number of areas during the audit where we believed improvements could be made. While none of these matters affects the fairness of the financial statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

LOCAL SERVICES REALIGNMENT

The government, as part of its Local Services Realignment (LSR) initiative, has implemented significant changes in how many government services in Ontario are delivered. Responsibility for a number of programs was transferred through the LSR in whole or in part to municipalities on January 1, 1998. These programs include social assistance, child care, public health, land ambulance, social housing, GO Transit, municipal transit and airports, policing, provincial offences, and court administration as well as the *Provincial Offences Act* revenues. Conversely, the province has reduced residential education taxes and is now responsible for a greater share of provincial education costs. It has also created a Community Reinvestment Fund to address local funding imbalances arising from the LSR reallocations.

The above changes account for a significant portion of the change in expenditures and revenues for several items in Schedules 1 and 3 of the province's 1998/99 financial statements. The following are the most significant:

- The Annual Report of the province indicates that residential education property taxes have been reduced by approximately \$2.5 billion annually, thereby giving municipalities more property tax room to finance their additional program responsibilities. Ministry information indicates that total school board funding from all sources, excluding pension costs, has remained stable over the last two years, totalling \$13.1 billion and \$12.9 billion respectively. The property tax shortfall to the education sector has been made up via increased provincial operating grants to school boards, which were increased by about \$2.9 billion in 1998/99 to \$7.5 billion. This accounts for virtually the entire increase in total Ministry of Education and Training expenditures, which were \$11.2 billion in 1998/99 versus \$8.3 billion in 1997/98.
- The Community Reinvestment Fund provides a means to ensure that fiscally vulnerable communities are not unduly affected by the shift in service responsibilities and that the entire initiative is revenue neutral. Expenditures for this Fund in 1998/99 were \$678 million. The Fund is administered by the Ministry of Finance and accounts for most of that Ministry's \$814 million expenditure increase for the year.
- The Ministry of Transportation's expenditures dropped by \$1,249 million to \$1,526 million due primarily to LSR. Last year's expenditures included a one-time \$829 million payment to discharge provincial responsibilities associated with the cancellation of the five-year Toronto Transit Commission/City of Toronto Capital Subsidy Agreement. Among this year's changes were reductions of \$456 million in municipal transit subsidies.
- The Ministry of Municipal Affairs and Housing's block grants to municipalities dropped by \$666 million, accounting for much of the \$967 million decrease in expenditure for that ministry.
- Expenditures of the Management Board Secretariat increased by \$304 million to \$577 million. Of this increase, \$180 million related to the new Special Circumstances Fund, established as part of the LSR initiative.
- Expenditures of the Ministry of Agriculture, Food and Rural Affairs dropped by \$155 million to \$310 million almost entirely because of the transfer of the Farm Tax Rebate program under LSR.

-
- Fines and Penalties revenue dropped by \$124 million to \$50 million this year primarily due to the transfer of *Provincial Offences Act* revenue to municipalities.

As a transition measure and to ensure continuity of service, the province continues to deliver many programs subject to LSR on behalf of municipalities, pending full program transfer. During this transition period, municipalities reimburse the province for expenditures made on their behalf. In 1998/99 the province recorded reimbursements of \$2.1 billion from municipalities.

ONTARIO HYDRO

SUCCESSOR COMPANIES

Until April 1, 1999, Ontario Hydro was the largest agency in the province. Operating under the authority of the *Power Corporation Act*, Ontario Hydro had broad powers to generate, supply, deliver and regulate electric power at cost throughout Ontario. Ontario Hydro reported to the Legislature through the Minister of Energy, Science and Technology.

In November 1998, the *Energy Competition Act* was enacted to restructure the Ontario electricity industry and introduce competition in the year 2000. Under the Act, Ontario Hydro was restructured effective April 1, 1999 into five successor entities: Ontario Power Generation Inc., Ontario Hydro Services Company Inc., the Ontario Electricity Financial Corporation, Independent Electricity Market Operator and Electrical Safety Authority.

The three largest of Ontario Hydro's successor companies are Ontario Power Generation Inc. (OPG), Ontario Hydro Services Company Inc. (OHSC), and Ontario Electricity Financial Corporation (OEFEC). These three entities take on, respectively, Ontario Hydro's generating operations, its transmission and distribution operations, and its debts and residual assets and liabilities. Unlike Ontario Hydro, these three new entities meet the criteria for inclusion in the reporting entity set out by PSAB, in that they are owned and controlled by the province. Accordingly, in the fiscal year ending March 31, 2000, they will be classified as government enterprises, and as such, their annual operating results will form part of the government's annual deficit or surplus and their net assets will be included in the province's statement of financial position.

While OPG and OHSC have considerable assets and have been structured to commence operations with healthy debt/equity ratios, the OEFEC commenced operations on April 1, 1999 with an estimated \$38.1 billion in total liabilities. Offsetting these obligations are only \$17.1 billion in notes receivable from the province (\$8.9 billion), OPG (\$3.4 billion) and OHSC (\$4.8 billion). The remaining \$21 billion is effectively the latest estimate of Ontario Hydro's "stranded" debt. We discussed this "stranded" debt at length in previous annual reports.

The government has a long-term plan in place to retire this stranded portion of debt from dedicated revenues. The main source of these revenues will be payments by OPG and OHSC in lieu of property taxes, corporate income taxes and capital taxes. These sources may be supplemented, if necessary, by a Competition Transition Charge that would most likely be paid by all ratepayers as a portion of their electricity bill.

Because of the creation of a dedicated revenue stream, the government intends to account for the \$21 billion stranded portion of Ontario Hydro's debt as a deferred charge on OEFEC's

statement of financial position. This deferred amount will be charged to operations over the recovery period. The details of this accounting have not yet been finalized, but the objective is to minimize the OEFC's financial impact on the province's financial results. Our understanding of the government's rationale for this approach is that, since the retirement of Ontario Hydro's debt through the OEFC is to be done through ratepayer charges rather than from the general tax base, it would be inappropriate for the government's financial statements to be significantly impacted by this initial stranded debt and the revenues earmarked to finance its retirement.

We have accepted this proposed accounting treatment for the OEFC as being allowable under accounting standards for rate-regulated utilities. However, our acceptance of this approach is contingent on being provided with independent assurance annually of the future estimated value of the dedicated revenue streams. If this assurance is not maintained, the deferred amount, or a portion thereof, would need to be written off, and thus treated at that time as an increase in provincial expenditure.

RESTATEMENT OF CERTAIN FINANCIAL STATEMENTS

In our *1998 Annual Report*, we stated that, while Ontario Hydro acknowledged that the charging of \$6.4 billion of future expenses to be incurred in the years 1998–2001 to the year 1997 was not in accordance with generally accepted accounting principles for business enterprises, Ontario Hydro and its external auditors had concluded that this accounting treatment was acceptable for enterprises operating in a rate-regulated environment. We expressed our concern that this inclusion of future expenses in 1997 would, in future years, allow Ontario Hydro to significantly inflate its net income.

We understand that Ontario Hydro Services Company Inc., one of the successor companies to Ontario Hydro, has determined with its external auditors that it would be appropriate to restate certain of its financial statements along the lines that we had suggested for Ontario Hydro, that is, expenses are included in operating results of the year in which those expenses are incurred. We believe it would be appropriate for all of Ontario Hydro's successor companies that need to access public capital markets to take action similar to that taken by Ontario Hydro Services Company Inc.

In our view, the ability of Ontario Hydro's successor companies to raise funds through public issues is essential to containing the risk to the Government of Ontario under guarantees provided on existing Ontario Hydro debt amounting to \$26.2 billion as at March 31, 1999 and to deal with the recovery of "stranded" debt now recorded in the books of the Ontario Electricity Financial Corporation.

1997 FINANCIAL CONTROL REVIEWS — FOLLOW-UP

In our *1997 Annual Report*, we reported on the results of financial control reviews carried out in nine ministries and central agencies. We found that, overall, ministries had satisfactory controls, systems and procedures to ensure that expenditures were properly authorized,

processed and recorded. However, in many of our 1997 reviews, we found that internal control procedures required strengthening in the areas of accountable advances to employees for travel and emergency payments, and payrolls.

During the past year, we carried out follow-ups of these reviews to determine the status of action taken to address the noted control weaknesses/deficiencies. We are pleased to report that, for the most part, the ministries where we made recommendations for strengthening controls over accountable advances and payroll have implemented our recommendations.

However, the former Ministry of Education and Training continued to have difficulties in implementing our recommendations in these two areas. In particular, its accountable advance bank account (authorized balance of \$1 million and annual expenditures of \$10.4 million) and its payroll accounts had not yet been satisfactorily reconciled. A number of significant amounts had not been investigated to determine their validity and how they should be accounted for. Some of the accountable advance transactions to be investigated dated back several years and amounted to a net unreconciled difference of \$465,000. The most recent reconciliations revealed additional differences exceeding \$100,000 that had yet to be accounted for.

The net pay clearing account contained over 1,000 unreconciled transactions dating as far back as 1995 and amounting to a net difference of \$160,000. As well, the total gross pay for each program area was still not being reconciled to the Ministry's overall total gross pay each pay period. In a sample of pay periods reviewed in 1997, we noted differences of up to \$175,000 between the total of all program areas and the ministry total.

Consequently, the risk of unauthorized payments and inaccurate accounting records has remained.

In view of the length of time these weaknesses have persisted, we further recommended that the Ministry's Audit Services Branch quickly investigate:

- ways to make reconciliation procedures more timely and effective;
- opportunities to reduce the volume of payments made from the accountable advance bank account and the volume of transactions entering the net pay clearing account; and
- the propriety of payments that have been made from the accountable advance account.

In its response, the Ministry indicated that it would take the steps necessary to rectify the control weaknesses we had identified and that its Audit Services Branch would monitor the situation and report progress to our Office.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. Additionally, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the *Estimates* of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report to the Legislature with respect to those ministry Estimates that were reviewed. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of six hours and then voted on.

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Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act*, which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. However, the *Supply Act, 1998* pertaining to the fiscal year ended March 31, 1999 was not passed by the Legislature.

Instead, pursuant to section 14 of the *Ministry of Treasury and Economics Act*, Order in Council 626/99 was approved on March 24, 1999. This Order in Council authorized the payment, out of the Consolidated Revenue Fund, of all estimated amounts in accordance with the votes and items of the estimates and supplementary estimates concurred in by the Assembly for the fiscal year ending March 31, 1999.

Typically, prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 1998/99 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 1997 to April 30, 1998 — passed September 23, 1997;
- May 1, 1998 to October 31, 1998 — passed April 27, 1998; and
- November 1, 1998 to April 30, 1999 — passed October 13, 1998.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant Governor on the recommendation of the government.

As the three motions of interim supply covered the period from April 1, 1998 to March 31, 1999, no Special Warrants were required during the 1998/99 fiscal year.

TREASURY BOARD ORDERS

Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation that is insufficient

to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of the total value of Treasury Board Orders issued for the past five fiscal years:



Treasury Board Orders for the 1998/99 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
May 1998-February 1999	28	706,987,800
March 1999	17	267,839,400
April 1999	11	644,394,600
	56	1,619,221,800

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are expected to be listed in *The Ontario Gazette* in the fall of 1999, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Four of this Report.

TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one Item of the Estimates of the Office of the Assembly to another Item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.

In respect of the 1998/99 Estimates, the following transfers were made within Vote 201:

From:	Item 3	Legislative Services	\$	385,000
	Item 5	Administrative Services		9,000
	Item 12	Upgrade Members' Systems		100,000
To:	Item 2	Office of the Clerk		270,000
	Item 4	Legislative Library and Information Systems		100,000
	Item 6	Sergeant at Arms and Building Management		124,000

In addition, within Vote 202, \$32,100 was transferred from Item 3 (Office of the Information and Privacy Commissioner) to Item 4 (Office of the Integrity Commissioner).

UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order in Council to delete from the accounts any amount due to the Crown which is deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 1998/99 fiscal year, receivables of \$193.7 million due to the Crown from individuals and non-government organizations were written off (in 1997/98 the comparable amount was \$154.2 million). Page 3-137 of Volume 2 of the 1998/99 *Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts receivable balances. Accordingly, most of the \$193.7 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order in Council approval.

The major portion of the write-offs related to the following:

- \$115.5 million for uncollectable taxes relating to corporation tax receivables;
- \$32.9 million for uncollectable taxes relating to tobacco tax receivables;
- \$23.8 million for uncollectable taxes relating to retail sales tax receivables; and
- \$7 million for uncollectable loans made under the Student Support Programs.

CHAPTER SIX

The Office of the Provincial Auditor

MISSION STATEMENT

Our mission is to report to the Legislative Assembly objective information and recommendations resulting from our independent audits of the government's programs, its Crown agencies and corporations. In doing so, the Office assists the Assembly in holding the government and its administrators accountable for the quality of the administration's stewardship of public funds and for the achievement of value for money in government operations.

We audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund, the financial statements of the province and the accounts of agencies of the Crown. Our responsibilities are set out in the *Audit Act* (Exhibit Six in this Report).

The Office thus fulfils its mission by conducting audits of ministries and agencies and by presenting an Annual Report to the Legislative Assembly. Additionally, the Office may make a special report to the Assembly at any time on any matter that in the opinion of the Provincial Auditor should not be deferred until the Annual Report. We also assist and advise the Standing Committee on Public Accounts in its review of the Public Accounts of the province and the Annual Report of the Provincial Auditor.

INDEPENDENCE

The Provincial Auditor is appointed as an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly. This is done after consultation with the Chair of the Standing Committee on Public Accounts. The Provincial Auditor and staff of the Office are independent of the government and its administration. We have access to all relevant information and records necessary to the performance of our duties under the *Audit Act*. Our independence is a safeguard which enables the Office to fulfil its auditing and reporting responsibilities objectively and fairly.

The Board of Internal Economy, an all-party legislative committee independent of the government's administrative process, reviews our budget, which is subsequently laid before the Legislative Assembly. As required by the *Audit Act*, the Office's expenditures relating to the 1998/99 fiscal year have been audited by a firm of chartered accountants appointed by the Board and are presented at the end of this chapter. The audited statement of expenditure is submitted annually to the Board and subsequently tabled in the Assembly.

AUDIT RESPONSIBILITIES

PRIMARY RESPONSIBILITY

The primary responsibility of the Office is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies and legislation.

Our audit responsibilities do not extend to government policy matters. The Office does not audit government policies or information contained in cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislative Assembly, which continually monitors and challenges government policies and programs through questions during legislative sessions and through reviews of legislation and expenditure estimates.

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ACCOUNTS OF THE PROVINCE AND MINISTRIES

The Provincial Auditor, under subsection 9(1) of the *Audit Act*, is required to audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise. To this end, the Office carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the province's summary financial statements and carries out cyclical value for money audits in accordance with subsection 12(2) of the *Audit Act*. Exhibit One in this Report lists the value for money audits conducted in 1998/99.

AGENCIES OF THE CROWN AND CROWN CONTROLLED CORPORATIONS

The Provincial Auditor, under subsection 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit Two, part (i), lists the agencies audited during the 1998/99 audit year. Public accounting firms are currently contracted by the Office to audit the financial statements of several of these agencies on its behalf.

Exhibit Two, part (ii), and Exhibit Three list the agencies of the Crown and Crown controlled corporations audited by public accounting firms during the 1998/99 audit year. Subsection 9(2) of the *Audit Act* requires public accounting firms that are appointed auditors of certain agencies of the Crown to perform their audits under the direction of, and to report to, the Provincial Auditor. Under subsection 9(3) of the Act, public accounting firms auditing Crown controlled corporations are required to deliver a copy of the audited financial statements to the Provincial Auditor, as well as a copy of their findings and recommendations to management (management letter).

ADDITIONAL RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may, by resolution of the Standing Committee on Public Accounts, be required to examine and report on any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister of the Crown. However, these special assignments are not to take precedence over the Provincial Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Provincial Auditor, it conflicts with other duties.

During the period of audit activity covered by this Report (October 1998 to September 1999), the Provincial Auditor was involved in the following special assignment:

- The Standing Committee on Public Accounts requested that the Provincial Auditor report to the Committee by mid-June on the corrective action taken by the Ministry of Community and Social Services on the administration of the Andersen Agreement.

Due to the dissolution of the third session of the Thirty-sixth Parliament, there was no Public Accounts Committee in mid-June; consequently, no report was made. However, the Provincial Auditor will continue to monitor the Ministry's commitments to corrective action in the administration of the Andersen Agreement and will report to the Committee on an as required basis.

AUDIT ACTIVITIES

TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. The Office generally conducts compliance audit work as a component of our value for money and attest audits. In addition, inspection audits of selected grant recipient organizations may be conducted under section 13 of the *Audit Act*. The following are brief descriptions of each of these audit categories.

VALUE FOR MONEY

Subsection 12(2) of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy and efficiency, or where appropriate procedures were not in place to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities each year. We have summarized in Chapter Three the conclusions, observations and recommendations arising from the value for money work we performed between October 1998 and September 1999.

It is not part of the Office's mandate to measure, evaluate or report on the effectiveness of programs or to develop performance measures or standards. These functions are the responsibility of the ministry or agency management. The Office is responsible for reporting whether or not ministry or agency management has carried out these functions satisfactorily. Our value for money work deals with the administration of programs by management, including major information systems.

We plan, perform and report our value for money work in accordance with the professional standards for assurance engagements, encompassing value for money and compliance, established by the Canadian Institute of Chartered Accountants. These standards require that we employ rigorous processes to maintain the quality, integrity and value of our work for our

client, the Legislative Assembly of Ontario. They also require that we clearly explain the nature and extent of the assurance provided as a result of our work. Some of these processes and the degree of assurance they enable us to provide are described below.

SELECTION OF PROGRAMS AND ACTIVITIES FOR AUDIT

Major ministry and agency programs and activities are audited at approximately five-year intervals. Various factors are considered in selecting programs and activities for audit each year. These factors include: the results of previous audits; the total revenues or expenditures at risk; the impact of the program or activity on the public; the inherent risk due to the complexity and diversity of operations; the significance of possible issues that may be identified by an audit; and the costs of performing the audit in relation to the perceived benefits. Possible issues are identified primarily through a preliminary survey of the program or agency.

We also consider the work completed or planned by ministry and agency internal auditors. The relevance, timeliness and breadth of scope of the work done by internal auditors can have a major impact on the timing, frequency and extent of our audits. By having access to internal audit work plans, working papers and reports and by relying, to the extent possible, on internal audit activities, the Office is able to avoid duplication of effort.

OBJECTIVES AND ASSURANCE LEVELS

The objective of our value for money work is to meet the requirements of section 12(2) of the *Audit Act* to identify and report significant value for money issues. We also include in our report recommendations for improving controls, obtaining better value for money and achieving legislated objectives. Management responses to each of these recommendations are reproduced in the report.

The specific objectives for the work are clearly stated in the “Objective and Scope” section of each report. Our work is designed to allow us to conclude on our stated objectives.

In almost all cases our work is planned and performed to provide an audit level of assurance. Audit level assurance is obtained by: interviewing management and analyzing the information they provide; examining and testing systems, procedures and transactions; confirming facts with independent sources; and, where necessary, obtaining expert assistance and advice in highly technical areas.

An audit level of assurance refers to the highest reasonable level of assurance the Office can provide concerning the subject matter. Absolute assurance that all significant matters have been identified is not attainable for various reasons, including: the use of testing; the inherent limitations of control; the fact that much of the evidence available is persuasive rather than conclusive in nature; and the need to exercise professional judgment.

Infrequently, for reasons such as the nature of the program or activity, limitations in the *Audit Act*, or the prohibitive cost of providing a high level of assurance, our Office will perform a review rather than an audit. A review provides a moderate level of assurance because it consists primarily of inquiries and discussions with management, analyses of information they provide, and only limited examination and testing of systems, procedures and transactions.

CRITERIA

In accordance with professional standards for assurance engagements, work is planned and performed to provide a conclusion on the objective(s) set for the work. A conclusion is reached and observations and recommendations made by evaluating the administration of a program or activity against suitable criteria. Suitable criteria are identified at the planning stage of our audit or review by performing extensive research of sources such as: recognized bodies of experts; applicable laws, regulations and other authorities; other bodies or jurisdictions delivering similar programs and services; management's own policies and procedures; and applicable criteria successfully applied in other audits or reviews.

To further ensure their suitability, the criteria being applied are fully discussed and agreed to with senior management responsible for the program or activity at the planning stage of the audit or review.

COMMUNICATION WITH SENIOR MINISTRY OR AGENCY MANAGEMENT

To help ensure the factual accuracy of our observations and conclusions, staff from our Office maintain ongoing communication with senior management throughout the audit or review. Before beginning the work, office staff meet with them to discuss the objectives and criteria and the focus of our work in general terms. During the audit or review, office staff meet with management to review progress and ensure open lines of communication. At the conclusion of on-site work, management is briefed on the preliminary results of the work. A draft report is then prepared and discussed with them. Management provides written responses to our recommendations and these are discussed and incorporated into the final draft report. The Provincial Auditor and senior office staff meet with the deputy minister or agency head to discuss the final draft report and give them an opportunity to finalize the responses. As mentioned above, these responses are provided with the report sections.

COMPLIANCE WITH LEGISLATION AND RELATED AUTHORITIES

Section 12(2) of the *Audit Act* also requires the Office to report observed instances where:

- accounts were not properly kept or public money was not fully accounted for;
- essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized; or
- money was expended other than for the purposes for which it was appropriated.

Accordingly, as part of our value for money work, we:

- identify provisions in legislation and authorities that govern the programs or agencies being examined or that the management of those programs or agencies is responsible for administering; and
- perform such tests and procedures as we deem necessary to obtain reasonable assurance that management has complied with legislation and authorities in all significant respects.

Where the responsibility for monitoring for compliance with certain legislation has been assigned to an independent person or office, such as the Environmental Commissioner in the case of the Environmental Bill of Rights or the Human Rights Commission in the case of the Human Rights Code, we would assess the procedures and actions taken by them only when performing value for money work in the respective organization.

ATTEST

Attest (financial) audits are designed to permit the expression of a professional opinion on a set of financial statements in accordance with generally accepted auditing standards. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with appropriate accounting policies. The Office conducts attest audits of the summary financial statements of the province and of various Crown agencies on an annual basis.

INSPECTION AUDITS OF GRANT RECIPIENT ORGANIZATIONS

Grants to organizations such as hospitals, universities, school boards, municipalities and thousands of smaller organizations amount to approximately 50% of total government expenditures, and are subject to inspection audits. An inspection audit is defined in the *Audit Act* as an examination of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented because only accounting records can be examined in inspection audits.

The Office may, where circumstances warrant the extension of a ministry or agency audit, conduct inspection audits of grant recipients. In the past, the Office has carried out inspection audits of major recipients of grants, specifically community colleges, universities, hospitals and school boards. However, in recent years, the Office has deferred major inspection audit activity pending consideration of a proposal to amend the *Audit Act* to permit the Office to access all records and information necessary to perform full scope audits, including value for money, of grant recipients. Further details and background on the subject of amendments to the *Audit Act* are provided in Chapter Two in the section entitled Legislative Proposals to Improve Public Accountability.

Payments are also made to individuals under a variety of programs, such as the Ontario Health Insurance Plan or the Provincial Allowances and Benefits program. Such individual recipients of government funds are not, and should not be, subject to direct audit by the Provincial Auditor. For these kinds of programs our audits focus on the Ministries' procedures to ensure that only eligible recipients are being paid the correct amount.

REPORTING ACTIVITIES

VALUE FOR MONEY AUDITS

Our draft reports and management letters are considered to be an integral part of our audit working papers and, according to section 19 of the *Audit Act*, are not required to be laid before the Assembly or any of its committees.

The Office prepares a preliminary draft report for discussion and factual clearance as each audit or review is completed. The preliminary draft report is discussed with senior ministry or agency officials and revised, as necessary, to reflect the results of the discussion. The resulting draft report with the ministry or agency response included is then reviewed with the appropriate deputy minister or agency head (chair). Following clearance of the preliminary draft report and the ministry or agency response, a final draft report is prepared and issued to the deputy minister or agency head and, where deemed necessary, to the minister. We also provide a copy of all final draft reports to the Secretary of the Management Board of Cabinet. These final draft audit reports form the basis for the preparation of our Annual Report to the Legislative Assembly.

AGENCY ATTEST AUDITS

With respect to attest audits of agencies, agency legislation normally stipulates that the Provincial Auditor's reporting responsibilities are to the agency's board and the minister(s) responsible. Also, we provide copies of the audit opinions and of the related agency financial statements to the deputy minister of the associated ministry, as well as to the Secretary of the Management Board of Cabinet.

In instances where matters which require improvements by management have been noted during the course of an agency attest audit, a draft management letter is prepared, discussed with senior management and revised, as necessary, to reflect the results of the discussion. The draft management letter with management's response included is also reviewed with the agency's chief executive officer. Following clearance of the draft management letter and the response of the agency's senior management, a final management letter is prepared and, if deemed necessary, issued to the agency head. Depending on the significance of the content of the management letter, a copy of it may also be forwarded to the minister and deputy minister of the associated ministry and to the Secretary of the Management Board of Cabinet. Matters of significance contained in the management letter may also be included in the Provincial Auditor's Annual Report to the Legislative Assembly.

SPECIAL ASSIGNMENTS

Under sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work, the Provincial Auditor normally reports to the initiating authority of the assignment.

ANNUAL REPORT

Section 12(2) of the *Audit Act* specifies the reporting requirements for the Annual Report.

Chapter Two of the Annual Report contains observations on the subject of improving public sector accountability.

Chapter Three contains the reports resulting from our value for money audits of ministries and agencies conducted during the year.

To ensure that our recommendations receive timely attention, we follow up on the progress of action taken by the ministry or agency to address our audit observations and recommendations and report on their status two years after they were reported. A detailed account of the current

status of recommendations made in the *1997 Annual Report* is provided in Chapter Four of this Report.

Chapter Five is devoted to the Provincial Auditor's comments on the audit of the Public Accounts of the Province. The reporting requirements under subsections 12(2)(d) and (e) of the *Audit Act* are also met in this chapter.

In Chapter Six we report on the activities of the Office of the Provincial Auditor and reproduce the Office's externally audited financial statement for the year ended March 31, 1999.

Chapter Seven provides information on the composition and activities of the Standing Committee on Public Accounts.

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OFFICE ORGANIZATION AND PERSONNEL

The Office organization consists of management teams, each of which is headed by a director responsible for the audits of a sizeable portfolio. Audit managers are assigned to portfolios. The composition of the portfolios attempts to align somewhat related audit entities and to foster expertise in the various areas of audit activity. The Provincial Auditor, the Assistant Provincial Auditor and the portfolio directors make up the Office's Executive Steering Committee (ESC). The executive management of the Office as at September 30, 1999 consisted of:

Erik Peters, FCA	-	Provincial Auditor
Ken Leishman, CA	-	Assistant Provincial Auditor
Walter Bordne, CA	-	Director, Community and Social Services, and Revenue Portfolio
Andrew Cheung, CA	-	Director, Justice and Regulatory Portfolio
Gerard Fitzmaurice, CA	-	Director, Economic Development, and Transportation Portfolio
John McDowell, CA	-	Director, Crown Agencies, Corporations, Boards and Commissions Portfolio
Nick Mishchenko, CMA	-	Director, Health Portfolio
Gary Peall, CA	-	Director, Education and Training, Municipal Affairs and Housing, and Professional Practices Portfolio

Annemarie Wiebe, the Manager of Human Resources, regularly attends meetings of the ESC to provide advice on matters related to human resources.

The audit managers, together with the members of the ESC, constitute the Office's Resource Planning and Allocation Committee. All audit staff below the level of audit manager are assigned to audits from an audit staff pool.

CODE OF PROFESSIONAL CONDUCT

The Office has a Code of Professional Conduct to encourage staff to maintain high professional standards and ensure a professional work environment. It is intended to be a general statement of philosophy, principles and rules regarding conduct for employees of the Office, who have a duty to conduct themselves in a professional manner and to strive to achieve the highest standards of behaviour, competence and integrity in their work. The Code

provides the reasoning for these expectations and further describes the Office's responsibilities to the Legislative Assembly, the public and our audit entities. The Code also provides guidance on disclosure requirements and the steps to be taken to avoid conflict-of-interest situations.

CANADIAN COUNCIL OF LEGISLATIVE AUDITORS

The 27th annual meeting of the Canadian Council of Legislative Auditors (CCOLA) was held in Quebec City from August 29 to 31, 1999. This annual gathering, bringing together legislative auditors from the federal government and the provinces, provides a useful forum for sharing ideas and exchanging information important to the work of the legislative auditing community.

The Provincial Auditor and the Assistant Provincial Auditor attended this year's meeting, which covered such topics as:

- government accounting standards;
- CCOLA research projects; and
- reporting entities.

The meeting also included a joint session with the Canadian Council of Public Accounts Committees to discuss subjects of common interest to strengthen ties between the two groups.

ACKNOWLEDGMENTS

EXTERNAL ADVISORY COMMITTEE

The External Advisory Committee came to an end during the year as a standing committee of the Office. In future, advisory committees will be constituted as needed, on an issue-by-issue basis.

The Provincial Auditor wishes to publicly acknowledge the contribution that the members of the External Advisory Committee made and to thank them for their informed and sound counsel. Many thanks to Rendall Dick, LSM, David Knight, FCA, Robert Lord, FCA, Ron Moore, FCA, and David Wilson, FCA, for sharing their time and advice.

AUDITEES AND STAFF

The Provincial Auditor expresses sincere appreciation to the officials of ministries, agencies and other entities for their cooperation in providing his staff with all the information and explanations required during the performance of the Office's audit work.

The Provincial Auditor extends a special appreciation to the staff of the Office for their dedication, competence and the professional manner in which they have carried out their duties.

OFFICE EXPENDITURE

The following is the 1999 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor
Statement of Expenditure
For the Year Ended March 31, 1999**

	1999		1998	
	Actual (\$000s)	Estimates (\$000s)	Actual (\$000s)	Estimates (\$000s)
Salaries and wages	4,361	4,838	4,314	4,838
Employee benefits (note 2)	876	947	1,133	1,124
Transportation and communication	149	148	179	154
Services	1,677	1,508	1,434	1,386
Supplies and equipment	133	67	294	73
Transfer payment -				
CCAF - FCVI Inc.	50	50	50	50
	7,246	7,558	7,404	7,625
The Audit Act (statutory)	154	155	167	168
	7,400	7,713	7,571	7,793

Notes:

1. Accounting Policy

The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for goods and services received during the fiscal year just ended.

2. Pension Plan

The Office provides pension benefits for its employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario. The Office's contribution related to the PSPF for the year was \$361,401 (1998 - \$582,858). The decrease is due to a Management Board of Cabinet decision to record annual unfunded liability payments centrally, and eliminate chargebacks to ministries and agencies.

3. Public Sector Salary Disclosure Act, 1996

Section 3(5) of this Act requires disclosure of Ontario public sector employees paid an annual salary in excess of \$100,000 in calendar year 1998. For the Office, this disclosure is as follows:

		Salary Paid	Taxable Benefits
		\$	\$
<i>Peters, Erik</i>	<i>Provincial Auditor</i>	153,947	5,987
<i>Leishman, Kenneth</i>	<i>Assistant Provincial Auditor</i>	136,605	351
<i>Bordne, Walter</i>	<i>Director</i>	105,232	274
<i>Cheung, Andrew</i>	<i>Director</i>	100,142	274
<i>Fitzmaurice, Gerard</i>	<i>Director</i>	100,565	274
<i>McDowell, John</i>	<i>Director</i>	100,565	274
<i>Mishchenko, Nicholas</i>	<i>Director</i>	105,232	274
<i>Peall, Gary</i>	<i>Director</i>	104,437	274

4. Uncertainty Due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failures which could affect an organization's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the organization, including those related to the efforts of suppliers or other third parties, will be fully resolved.

Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1999. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1999 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario
July 19, 1999

ALLEN & MILES
CHARTERED ACCOUNTANTS

CHAPTER SEVEN

The Standing Committee on Public Accounts

APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislature provide for the appointment of an all-party Standing Committee on Public Accounts for each session of the Legislature.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on May 4, 1998, soon after the commencement of the Second Session of the Thirty-sixth Parliament. Although the Committee was reappointed on April 29, 1999, soon after the commencement of the Third Session, the Committee did not have an opportunity to meet due to the dissolution of the House on May 5, 1999. The membership of the Committee at dissolution was as follows:

Marcel Beaubien, Progressive Conservative
Bernard Grandmaître, Liberal
Bill Grimmett, Progressive Conservative
Jean-Marc Lalonde, Liberal
Shelley Martel, New Democrat
Richard Patten, Liberal
Peter L. Preston, Progressive Conservative
Joseph N. Tascona, Progressive Conservative
Terence H. Young, Progressive Conservative

The Committee will be reconstituted upon commencement of the Thirty-seventh Parliament.

ROLE OF THE COMMITTEE

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of government operations; the effectiveness of programs in achieving their objectives; controls over assets, expenditures, and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

In fulfilling this role, the Committee reviews and reports to the Legislature its observations, opinions and recommendations on selected matters in the Annual Report of the Provincial Auditor and the Public Accounts. These documents are deemed to have been permanently referred to the Committee as they become available.

PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend committee meetings during the Committee's review of the Annual Report of the Provincial Auditor and the Public Accounts and assist the Committee in planning its agenda.

7.00

COMMITTEE PROCEDURES AND OPERATIONS

GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. At times, the Committee also meets during the summer and winter when the Legislature is not sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of committee reports.

At meetings dealing with ministry operations, the deputy minister, usually accompanied by senior ministry officials, answers questions raised by committee members. Since the Committee is concerned with administrative rather than policy matters, ministers rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer, usually accompanied by senior agency staff and, at times, the chair of the board, attend the meetings.

MEETINGS HELD

From October 1998 to September 1999, the Committee met regularly on its designated meeting day when the Legislature was sitting. The Committee's work during this period (six meetings from October 1 to December 17 and no meetings from April 22 to May 4) included:

- finalizing a report to the Legislature covering its 1997/98 activities; and
- reviewing the following from the Provincial Auditor's *1998 Annual Report*:
 - Ministry of Community and Social Services — Business Transformation Project/ Common Purpose Procurement.

REQUEST FOR SPECIAL AUDIT

On December 17, 1998, the Committee passed the following motion under section 17 of the *Audit Act*:

That the Provincial Auditor report to the Public Accounts Committee by mid-June on the corrective action taken by the Ministry of Community and Social Services on the administration of the Andersen Agreement.

Due to the dissolution of the third session of the Thirty-sixth Parliament, there was no Public Accounts Committee in mid-June; consequently, no report was made. However, the Provincial

Auditor will continue to monitor the Ministry's commitments to corrective action in the administration of the Andersen Agreement and will report to the Committee on an as required basis.

COMMITTEE PROCEDURES

The Committee conducts hearings and then reports its comments and recommendations to the Legislature. Committee procedures include the following:

- in-depth briefings and preparation;
- when practical, the inclusion of ministry responses in committee reports; and
- follow-up of committee recommendations.

The Committee also follows up in writing with those ministries and Crown agencies not selected for detailed review by the Committee regarding their plans and timetables for addressing the concerns raised in the Provincial Auditor's Annual Report. This process enables each auditee to update the Committee on activities since the completion of the audit, such as any initiatives taken to address the Provincial Auditor's recommendations.

REPORTS OF THE COMMITTEE

GENERAL

The Committee issues its reports to the Legislature. These reports contain a précis of the information reviewed by the Committee during its meetings, together with comments and recommendations.

All committee reports are available through the Clerk of the Committee, thus affording public access to full details of committee deliberations.

FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up on the actions taken by ministries or agencies on the Committee's recommendations. The Office of the Provincial Auditor confers with the Clerk to ascertain the status of the recommendations and, if considered necessary, brings any significant matters to the attention of the Legislature in the Provincial Auditor's Annual Report.

STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE AUDIT ACT

Detailed information on this subject and other related matters is contained in Chapter Two of this Report.

OTHER COMMITTEE ACTIVITIES

CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES (CCPAC)

CCPAC consists of delegates of federal, provincial and territorial public accounts committees from across Canada. CCPAC meets at the same time and place as the Canadian Council of Legislative Auditors (CCOLA) to discuss issues of current interest. The twentieth annual meeting of CCPAC was held in Quebec City, from August 29 to 31, 1999. This year's annual CCPAC and CCOLA meetings also permitted the delegations to participate in a joint session specifically devoted to discussing subjects of common interest to strengthen ties between the two groups.

7.00



Exhibits

EXHIBIT ONE

Value for Money Audits and Reviews Conducted in 1998/99

Attorney General

- Family Responsibility Office
- Office of the Public Guardian and Trustee

Community and Social Services

- Child Care Activity
- Community Accommodation Program

Consumer and Commercial Relations

- Liquor Control Board of Ontario

Economic Development and Trade

- Financial Control Review

Finance

- Provincial Personal Income Tax Revenue and Related Credits and Reductions

Health and Long-Term Care

- Cancer Care Ontario
- Institutional Health Program—Transfer Payments to Public Hospitals
- Ontario Substance Abuse Bureau

Municipal Affairs and Housing

- Non-Profit Housing—Capital Reserves

Management Board Secretariat

- Year 2000 / Information Technology Preparedness

Training, Colleges and Universities

- Accountability Framework for University Funding

Transportation

- Provincial Highway Maintenance

EXHIBIT TWO

Agencies of the Crown

(I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

AgriCorp

Agricultural Rehabilitation and Development Directorate of Ontario

Algonquin Forestry Authority

Cancer Care Ontario

Centennial Centre of Science and Technology

Commission on Election Finances

Eastern Ontario Development Corporation

Egg Fund Board (December 31), Fund for Egg Producers

Election Act - Election Fees and Expenses

Financial Services Commission of Ontario

Grain Financial Protection Board, Funds for Producers of Grain Corn, Soybeans
and Canola

Innovation Ontario Corporation

Legal Aid Ontario

Liquor Control Board of Ontario

Livestock Financial Protection Board, Fund for Livestock Producers

North Pickering Development Corporation

Northern Ontario Development Corporation

Northern Ontario Heritage Fund Corporation

Office of the Assembly

Office of the Environmental Commissioner

Office of the Information and Privacy Commissioner

Office of the Children's Lawyer

Office of the Ombudsman

Ontario Clean Water Agency (December 31)

Ontario Development Corporation
Ontario Educational Communications Authority
Ontario Exports Inc.
Ontario Farm Products Marketing Commission, Fund for Milk and Cream Producers
Ontario Film Development Corporation
Ontario Financing Authority
Ontario Food Terminal Board
Ontario Heritage Foundation
Ontario Housing Corporation (December 31)
Ontario Junior Farmer Establishment Loan Corporation
Ontario Lottery Corporation
Ontario Northland Transportation Commission (December 31)
Ontario Place Corporation
Ontario Racing Commission
Ontario Realty Corporation
Ontario Securities Commission
Ontario Transportation Capital Corporation
Province of Ontario Council for the Arts
Provincial Judges Pension Fund, Provincial Judges Pension Board
Public Guardian and Trustee for the Province of Ontario
Tobacco Diversification Fund, Tobacco Diversification Committee

**(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY
ANOTHER AUDITOR UNDER THE DIRECTION OF THE
PROVINCIAL AUDITOR**

Board of Community Mental Health Clinic, Guelph
Niagara Parks Commission (October 31)
Ontario Mental Health Foundation
St. Clair Parkway Commission (December 31)
St. Lawrence Parks Commission
Toronto Area Transit Operating Authority
Workplace Safety and Insurance Board (December 31)

NOTES:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 1998/99 fiscal year:
 - Additions:*
 - Financial Services Commission of Ontario
 - Deletions:*
 - Ontario Aerospace Corporation
 - Ontario Stockyards Board
 - Police Complaints Commissioner
3. Inactive agencies as at March 31, 1999:
 - Ontario Telephone Development Corporation

EXHIBIT THREE

Crown Controlled Corporations

CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS AND OTHER RELATED DOCUMENTS

Art Gallery of Ontario Crown Foundation
Baycrest Hospital Crown Foundation
Big Thunder Sports Park Ltd.
Board of Funeral Services
Brock University Foundation
Carleton University Foundation
CIAR Foundation (Canadian Institute for Advanced Research)
Canadian Opera Company Crown Foundation
Canadian Stage Company Crown Foundation
Dairy Farmers of Ontario
Deposit Insurance Corporation of Ontario
Education Quality and Accountability Office
Foundation at Queen's University at Kingston
Grand River Hospital Crown Foundation
Lakehead University Foundation
Laurentian University of Sudbury Foundation
McMaster University Foundation
McMichael Canadian Art Collection
Metropolitan Toronto Convention Centre Corporation

Moosonee Development Area Board
Mount Sinai Hospital Crown Foundation
National Ballet of Canada Crown Foundation
Nipissing University Foundation
North York General Hospital Crown Foundation
Ontario Casino Corporation
Ontario Centre for Resource Machinery Technology
Ontario Foundation for the Arts
Ontario Immigrant Investor Corporation
Ontario Investment Service Inc.
Ontario Hydro
Ontario Mortgage Corporation
Ontario Municipal Employees Retirement Board
Ontario Pension Board
Ontario Tourism Marketing Partnership Corporation
Ontario Trillium Foundation
Ortech Corporation
Ottawa Congress Centre
Royal Botanical Gardens Crown Foundation
Royal Ontario Museum
Royal Ontario Museum Crown Foundation
Ryerson Polytechnic University Foundation
Science North
Shaw Festival Crown Foundation
St. Michael's Hospital Crown Foundation
Stadium Corporation of Ontario Limited
Stratford Festival Crown Foundation
Sunnybrook Hospital Crown Foundation
Toronto East General Hospital Crown Foundation
Toronto Hospital Crown Foundation
Toronto Islands Residential Community Trust Corporation
Toronto Symphony Orchestra Crown Foundation
Travel Industry Compensation Fund Corporation

Trent University Foundation
University of Guelph Foundation
University of Ottawa Foundation
University of Toronto Foundation
University of Waterloo Foundation
University of Western Ontario Foundation
University of Windsor Foundation
Waterfront Regeneration Trust Agency
Wilfrid Laurier University Foundation
Women's College and Wellesley Central Crown Foundation
York University Foundation

NOTES:

Changes during the 1998/99 fiscal year:

Addition:

- Ontario Tourism Marketing Partnership Corporation

EXHIBIT FOUR

Treasury Board Orders

AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER YEAR ENDED MARCH 31, 1999

Ministry	Date of Order	Authorized	Expended
		\$	\$
Agriculture, Food and Rural Affairs	Dec. 15, 1998	5,876,400	2,691,200
	Feb. 9, 1999	13,250,600	4,732,603
	Apr. 12, 1999	<u>1,708,100</u>	<u>1,631,526</u>
		<u>20,835,100</u>	<u>9,055,329</u>
Attorney General	Dec. 8, 1998	4,100,000	4,100,000
	Dec. 15, 1998	5,182,000	5,182,000
	Feb. 9, 1999	2,434,600	1,267,361
	Apr. 12, 1999	<u>13,414,600</u>	<u>9,584,639</u>
		<u>25,131,200</u>	<u>20,134,000</u>
Cabinet Office	Apr. 12, 1999	<u>400,000</u>	<u>11,921</u>
Citizenship, Culture and Recreation	June 23, 1998	5,626,500	5,395,039
	Mar. 23, 1999	4,536,200	4,536,200
	Apr. 12, 1999	<u>13,373,900</u>	<u>13,183,398</u>
		<u>23,536,600</u>	<u>23,114,637</u>
Community and Social Services	Jan. 26, 1999	50,600,000	50,600,000
	Feb. 9, 1999	20,883,400	20,883,400
	Feb. 9, 1999	103,508,800	103,508,800
	Mar. 23, 1999	<u>67,618,500</u>	<u>63,369,115</u>
		<u>242,610,700</u>	<u>238,361,315</u>
Consumer and Commercial Relations	Feb. 23, 1999	3,820,800	3,429,217
	Mar. 23, 1999	<u>720,200</u>	<u>586,735</u>
		<u>4,541,000</u>	<u>4,015,952</u>
Economic Development, Trade and Tourism	Mar. 23, 1999	<u>4,600,000</u>	<u>4,493,690</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Education and Training	Sept. 29, 1998	4,720,500	3,834,572
	Mar. 23, 1999	<u>25,161,400</u>	<u>16,891,557</u>
		<u>29,881,900</u>	<u>20,726,129</u>
Energy, Science and Technology	Mar. 23, 1999	2,421,300	1,180,353
	Apr. 12, 1999	<u>173,250,000</u>	<u>169,194,700</u>
		<u>175,671,300</u>	<u>170,375,053</u>
Environment	Feb. 23, 1999	15,640,200	15,640,200
	Mar. 23, 1999	<u>7,126,800</u>	<u>7,031,967</u>
		<u>22,767,000</u>	<u>22,672,167</u>
Finance	Dec. 8, 1998	94,860,000	94,860,000
	Dec. 8, 1998	3,924,300	3,924,300
	Mar. 23, 1999	<u>21,610,800</u>	<u>18,833,697</u>
		<u>120,395,100</u>	<u>117,617,997</u>
Office of Francophone Affairs	Mar. 23, 1999	<u>25,000</u>	<u>—</u>
Health	Feb. 9, 1999	135,375,600	85,387,387
	Feb. 9, 1999	39,676,700	39,676,700
	Mar. 9, 1999	25,996,600	19,491,758
	Apr. 12, 1999	<u>184,539,600</u>	<u>174,822,710</u>
		<u>385,588,500</u>	<u>319,378,555</u>
Labour	Feb. 23, 1999	665,000	655,326
	Mar. 9, 1999	<u>2,770,600</u>	<u>2,514,053</u>
		<u>3,435,600</u>	<u>3,169,379</u>
Management Board Secretariat	June 23, 1998	40,000,000	—
	Aug. 11, 1998	744,000	219,795
	Mar. 23, 1999	1,300,000	1,300,000
	Apr. 12, 1999	<u>121,017,800</u>	<u>115,268,876</u>
		<u>163,061,800</u>	<u>116,788,671</u>
Municipal Affairs and Housing	Apr. 12, 1999	<u>16,934,200</u>	<u>14,396,746</u>
Natural Resources	June 16, 1998	24,000,000	24,000,000
	Aug. 11, 1998	25,000,000	25,000,000
	Sept. 29, 1998	19,000,000	19,000,000
	Nov. 24, 1998	2,874,000	2,825,275
	Feb. 23, 1999	2,500,000	2,500,000
	Mar. 30, 1999	11,923,600	11,923,600
	Mar. 31, 1999	14,550,000	14,550,000
	Apr. 12, 1999	<u>43,950,500</u>	<u>43,302,409</u>
		<u>143,798,100</u>	<u>143,101,284</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Northern Development and Mines	Apr. 12, 1999	<u>4,321,900</u>	<u>3,856,801</u>
Office Responsible for Women's Issues	Feb. 9, 1999	<u>149,400</u>	<u>—</u>
Ontario Native Affairs Secretariat	Jan. 26, 1999	680,000	—
	Mar. 23, 1999	<u>850,100</u>	<u>485,167</u>
		<u>1,530,100</u>	<u>485,167</u>
Solicitor General and Correctional Services	Jan. 12, 1999	35,245,000	35,245,000
	Apr. 12, 1999	<u>71,484,000</u>	<u>71,191,549</u>
		<u>106,729,000</u>	<u>106,436,549</u>
Transportation	Feb. 9, 1999	46,650,000	46,650,000
	Mar. 23, 1999	32,628,300	32,568,143
	Mar. 31, 1999	<u>44,000,000</u>	<u>36,090,964</u>
		<u>123,278,300</u>	<u>115,309,107</u>
Total Treasury Board Orders		<u>1,619,221,800</u>	<u>1,453,500,449</u>

EXHIBIT FIVE

Extracts from the *Audit Act*

R.S.O. 1990, Chapter A.35

Definitions

1. In this Act,

“agency of the Crown” means an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (a) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (b) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (c) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (d) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor’s report and the working papers used in the preparation of the auditor’s statement are required to be made available to the Auditor under any other Act,

but does not include one that the *Crown Agency Act* states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of the *Crown Agency Act*;

“Auditor” means the Provincial Auditor;

“Crown controlled corporation” means a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council;

“inspection audit” means an examination of accounting records;

“public money” has the same meaning as in the *Financial Administration Act*.

Audit of
Consolidated
Revenue Fund

9.—(1) The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.

Audit of agencies of the Crown	(2) Where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Auditor shall perform the audit, and, despite any other Act, where the accounts and financial transactions of an agency of the Crown are audited by another auditor, the audit shall be performed under the direction of the Auditor and such other auditor shall report to the Auditor.
Audit of Crown controlled corporations	<p>(3) Where the accounts of a Crown controlled corporation are audited other than by the Auditor, the person or persons performing the audit,</p> <ul style="list-style-type: none"> (a) shall deliver to the Auditor forthwith after completion of the audit a copy of their report of their findings and their recommendations to the management and a copy of the audited financial statements of the corporation; (b) shall make available forthwith to the Auditor, when so requested by the Auditor, all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the corporation specified in the request; (c) shall provide forthwith to the Auditor, when so requested by the Auditor, a full explanation of work performed, tests and examinations made and the results obtained, and any other information within the knowledge of such person or persons in respect of the corporation.
Additional examination and investigation	(4) Where the Auditor is of the opinion that any information, explanation or document that is provided, made available or delivered to him or her by the auditor or auditors referred to in subsection (2) or (3) is insufficient, the Auditor may conduct or cause to be conducted such additional examination and investigation of the records and operations of the agency or corporation as the Auditor considers necessary.
Information and access to records	10. Every ministry of the public service, every agency of the Crown and every Crown controlled corporation shall furnish the Auditor with such information regarding its powers, duties, activities, organization, financial transactions and methods of business as the Auditor from time to time requires, and the Auditor shall be given access to all books, accounts, financial records, reports, files and all other papers, things or property belonging to or in use by the ministry, agency of the Crown or Crown controlled corporation and necessary to the performance of the duties of the Auditor under this Act.
Annual report	12.—(1) The Auditor shall report annually to the Speaker of the Assembly after each fiscal year is closed and the Public Accounts are laid before the Assembly, but not later than the 31st day of December in each year unless the Public Accounts are not laid before the Assembly by that day, and may make a special report to the Speaker at any time on any matter that in the opinion of the Auditor should not be deferred until the annual report, and the Speaker shall lay each such report before the Assembly forthwith if it is in session or, if not, not later than the tenth day of the next session.
Contents of report	(2) In the annual report in respect of each fiscal year, the Auditor shall report on,

-
- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
 - (b) the examination of accounts of receipts and disbursements of public money;
 - (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
 - (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
 - (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
 - (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
 - (i) accounts were not properly kept or public money was not fully accounted for,
 - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
 - (iii) money was expended other than for the purposes for which it was appropriated,
 - (iv) money was expended without due regard to economy and efficiency, or
 - (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory.

Inspection audit

13.—(1) The Auditor may perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund or an agency of the Crown and may require a recipient of such a payment to prepare and to submit to the Auditor a financial statement that sets out the details of the disposition of the payment by the recipient.

Attendance at
standing Public
Accounts
Committee of the
Assembly

16. At the request of the standing Public Accounts Committee of the Assembly, the Auditor and any member of the Office of the Auditor designated by the Auditor shall attend at the meetings of the committee in order,

- (a) to assist the committee in planning the agenda for review by the committee of the Public Accounts and the annual report of the Auditor; and
- (b) to assist the committee during its review of the Public Accounts and the annual report of the Auditor,

and the Auditor shall examine into and report on any matter referred to him or her in respect of the Public Accounts by a resolution of the committee.

Special
assignments

17. The Auditor shall perform such special assignments as may be required by the Assembly, the standing Public Accounts Committee of the Assembly, by resolution of the committee, or by a minister of the Crown in right of Ontario but such special assignments shall not take precedence over the other duties of the Auditor under this Act and the Auditor may decline an assignment by a minister of the Crown that, in the opinion of the Auditor, might conflict with the other duties of the Auditor.

Audit working
papers

19. Audit working papers of the Office of the Auditor shall not be laid before the Assembly or any committee of the Assembly.



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